

Cathay Century Insurance Co., Ltd. and Subsidiaries
Consolidated Financial Statements

For the years ended
31 December 2013 and 2012
With Independent Auditors' Report

The reader is advised that these financial statements have been prepared originally in Chinese. These consolidated financial statements do not include additional disclosure information that is required for Chinese-language reports under the “Guidelines Governing the Preparation of Financial Reports by Insurance Enterprises”. If there is any conflict between these consolidated financial statements and the Chinese version or any difference in the interpretation of the two versions, the Chinese language consolidated financial statements shall prevail.

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Independent Auditors' Report
English Translation of a Report Originally Issued in Chinese

The Board of Directors and Shareholders
Cathay Century Insurance Co., Ltd.

We have audited the accompanying consolidated balance sheets of Cathay Century Insurance Co., Ltd. (the "Company") and its subsidiaries as of 31 December 2013, 31 December 2012 and 1 January 2012, and the related consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for the years ended 31 December 2013 and 2012. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards in the Republic of China ("ROC") and "Guidelines for Certified Public Accountants' Examination and Reports on Financial Statements". Those rules and standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, based on our audits, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Cathay Century Insurance Co., Ltd. and its subsidiaries as of 31 December 2013, 31 December 2012 and 1 January 2012, and the consolidated results of their operations and their cash flows for the years ended 31 December 2013 and 2012, in conformity with "Guidelines Governing the Preparation of Financial Reports by Insurance Enterprises", and "International Financial Reporting Standards", "International Accounting Standards", "Interpretations developed by the International Financial Reporting Interpretations Committee" as endorsed by Financial Supervisory Commission.

In addition, we have also audited the financial statements of the Company as of and for the years ended 31 December 2013 and 2012, on which we have expressed an unqualified opinion.

Ernst & Young
Taipei, Taiwan
The Republic of China



13 March 2014

English Translation of Financial Statements Originally Issued in Chinese

Cathay Century Insurance Co., Ltd. and Subsidiaries

Consolidated balance sheets

As of 31 December 2013, 31 December 2012 and 1 January 2012

(Expressed in thousands of dollars)

Assets	Notes	31 December 2013		31 December 2012		1 January 2012	
		NT\$	US\$	NT\$	US\$	NT\$	US\$
Cash and cash equivalents	4,6(1)	\$8,194,772	\$274,716	\$5,677,051	\$195,423	\$6,926,067	\$228,809
Receivables	4,6(2)	3,725,513	124,891	3,291,611	113,308	2,909,396	96,115
Financial assets at fair value through profit or loss	4,6(3)	1,312,025	43,983	437,273	15,053	619,455	20,464
Available-for-sale financial assets	4,6(4)	7,234,902	242,538	8,404,492	289,311	5,897,618	194,834
Derivative financial assets for hedging		10,022	336	17,134	590	28,521	942
Investments accounted for using the equity method		829	28	1,490	51	5,465	181
Bond investments with no active market	4,6(5)	2,053,740	68,848	1,323,270	45,552	1,192,997	39,412
Held-to-maturity financial assets	4,6(6)	1,955,937	65,570	2,512,011	86,472	2,408,714	79,574
Secured Loans	4,6(7)	422,521	14,164	522,080	17,972	551,965	18,235
Reinsurance contracts assets	4,6(8)	5,057,226	169,535	5,514,577	189,831	5,202,403	171,867
Property and equipment		303,365	10,170	180,172	6,202	225,801	7,460
Intangible assets		29,031	973	35,755	1,231	37,323	1,233
Deferred income tax assets	4,6(20)	77,223	2,589	80,750	2,779	105,494	3,485
Other assets		1,332,211	44,660	1,190,348	40,976	991,100	32,742
Total assets		<u>\$31,709,317</u>	<u>\$1,063,001</u>	<u>\$29,188,014</u>	<u>\$1,004,751</u>	<u>\$27,102,319</u>	<u>\$895,353</u>

(The exchange rates provided by the Federal Reserve Bank of New York on 31 December 2013, 31 December 2012 and 1 January 2012 were NT\$29.83, NT\$29.05 and NT\$30.27 to US\$1.00)

The accompanying notes are an integral part of these financial statements.

English Translation of Financial Statements Originally Issued in Chinese

Cathay Century Insurance Co., Ltd. and Subsidiaries

Consolidated balance sheets

As of 31 December 2013, 31 December 2012 and 1 January 2012

(Expressed in thousands of dollars)

Liabilities & equity	Notes	31 December 2013		31 December 2012		1 January 2012	
		NT\$	US\$	NT\$	US\$	NT\$	US\$
Payables	4,6(9)	\$2,622,538	\$87,917	\$2,223,005	\$76,523	\$2,101,262	\$69,417
Financial liabilities at fair value through profit or loss		28,352	950	-	-	45,000	1,487
Preferred stock liability	4,6(10)	1,000,000	33,523	1,000,000	34,424	1,000,000	33,036
Insurance liabilities	4,6(11)	21,853,590	732,604	20,440,598	703,635	19,075,973	630,194
Provision	4,6(12)	236,272	7,921	247,950	8,536	259,488	8,573
Deferred income tax liabilities	4,6(20)	24,404	818	18,305	630	22,311	737
Other liabilities		433,062	14,518	440,823	15,174	259,817	8,583
Total liabilities		26,198,218	878,251	24,370,681	838,922	22,763,851	752,027
Equity attributable to owners of parent							
Capital stock	4,6(13)	2,721,879	91,246	2,522,950	86,849	2,317,006	76,545
Capital surplus							
Capital surplus - others		1,929	65	1,929	66	1,929	64
Retained earnings	4,6(14)						
Legal reserve		1,092,927	36,639	954,800	32,867	834,443	27,567
Special capital reserve		1,364,645	45,747	923,897	31,804	462,480	15,278
Undistributed earnings		74,975	2,513	77,338	2,663	169,836	5,611
Other equity		(95,368)	(3,197)	36,129	1,243	(76,296)	(2,521)
Non-controlling interests	4,6(15)	350,112	11,737	300,290	10,337	629,070	20,782
Total equity		5,511,099	184,750	4,817,333	165,829	4,338,468	143,326
Total equity and liabilities		\$31,709,317	\$1,063,001	\$29,188,014	\$1,004,751	\$27,102,319	\$895,353

(The exchange rates provided by the Federal Reserve Bank of New York on 31 December 2013, 31 December 2012 and 1 January 2012 were NT\$29.83, NT\$29.05 and NT\$30.27 to US\$1.00)

The accompanying notes are an integral part of these financial statements.

English Translation of Financial Statements Originally Issued in Chinese

Cathay Century Insurance Co., Ltd. and Subsidiaries

Consolidated statements of comprehensive income

For the years ended 31 December 2013 and 2012

(Expressed in thousands of dollars, except earning per share)

Items	Notes	2013.1.1~2013.12.31		2012.1.1~2012.12.31	
		NT\$	US\$	NT\$	US\$
Operating revenues					
Direct premium income		\$19,228,139	\$644,591	\$16,545,315	\$569,546
Reinsurance premium income		498,526	16,712	494,931	17,037
Premiums income		19,726,665	661,303	17,040,246	586,583
Deduct: Reinsurance premiums ceded		(4,446,271)	(149,054)	(4,426,479)	(152,374)
Change in unearned premiums reserve - Net	4,6(11)	(1,124,215)	(37,687)	(890,021)	(30,638)
Retained earned premium	4,6(16)	14,156,179	474,562	11,723,746	403,571
Reinsurance commission earned		469,601	15,742	463,969	15,971
Handling fee earned		35,714	1,197	33,345	1,148
Investment profit and loss		714,780	23,962	595,257	20,491
Interest income		421,700	14,137	386,894	13,318
Gains (losses) from financial asset or financial liability at fair value through profit or loss		(164,117)	(5,502)	122,834	4,229
Realized gains(losses) from available-for-sale financial assets		285,364	9,566	217,187	7,476
Realized gains(losses) from held-to-maturity financial assets		3,134	105	(805)	(28)
Share of profit(loss) of associates and joint ventures accounted for using the equity method		(662)	(22)	(1,879)	(65)
Gains (losses) on foreign Exchange		169,361	5,678	(128,974)	(4,439)
Other operating revenues		-	-	73	3
Subtotal		15,376,274	515,463	12,816,390	441,184
Operating costs					
Insurance claims paid		(9,743,408)	(326,631)	(8,595,725)	(295,894)
Deduct: Claims recovered from reinsurers		1,908,395	63,975	1,926,425	66,314
Retained claim paid	4,6(17)	(7,835,013)	(262,656)	(6,669,300)	(229,580)
Changes in insurance liabilities-Net	4,6(11)	(591,929)	(19,843)	(369,079)	(12,705)
Commissions expenses		(1,039,314)	(34,841)	(722,989)	(24,888)
Other operating costs		(43,521)	(1,459)	(51,324)	(1,767)
Subtotal		(9,509,777)	(318,799)	(7,812,692)	(268,940)

(The exchange rates provided by the Federal Reserve Bank of New York on 31 December 2013 and 2012 were NT\$29.83 and NT\$29.05 to US\$1.00)

The accompanying notes are an integral part of these financial statements.

Cathay Century Insurance Co., Ltd. and Subsidiaries
Consolidated statements of comprehensive income
For the years ended 31 December 2013 and 2012
(Expressed in thousands of dollars, except earning per share)

Items	Notes	2013.1.1~2013.12.31		2012.1.1~2012.12.31	
		NT\$	US\$	NT\$	US\$
Operating expenses					
Marketing expenses		(4,062,244)	(136,180)	(3,408,836)	(117,344)
General and administrative expenses		(1,253,620)	(42,025)	(1,008,730)	(34,724)
Employee training expenses		(12,193)	(409)	(9,792)	(337)
Subtotal		(5,328,057)	(178,614)	(4,427,358)	(152,405)
Operating income		538,440	18,050	576,340	19,839
Non-operating income and expenses		8,567	287	(9,219)	(317)
Profit before tax from continuing operations		547,007	18,337	567,121	19,522
Income tax expense	4,6(20)	(217,953)	(7,306)	(196,397)	(6,760)
Profit from continuing operations		329,054	11,031	370,724	12,762
Net income		329,054	11,031	370,724	12,762
Other comprehensive income	4,6(18)				
Exchange differences resulting from translating the financial statements of a foreign operation		29,920	1,003	(47,245)	(1,627)
Unrealized gains (losses) from available-for-sale financial assets		(144,737)	(4,852)	166,779	5,741
Gains (losses) on cash flow hedges		(7,113)	(239)	(11,387)	(392)
Share of other comprehensive income of associates and joint ventures accounted for using the equity method		1	-	(6)	-
Income tax relating to components of other comprehensive income		1,090	37	-	-
Other comprehensive income, net of tax		(120,839)	(4,051)	108,141	3,722
Total comprehensive income		\$208,215	\$6,980	\$478,865	\$16,484
Net income attributable to :					
Owners of parent (net income)		\$775,441	\$25,995	\$695,220	\$23,932
Non-controlling interests (net loss)		\$(446,387)	\$(14,964)	\$(324,496)	\$(11,170)
Comprehensive income attributable to :					
Owners of parent (comprehensive income)		\$643,944	\$21,587	\$807,645	\$27,802
Non-controlling interests (comprehensive loss)		\$(435,729)	\$(14,607)	\$(328,780)	\$(11,318)
Earning per share (In dollars)	4,6(21)				
Net income from continuing operations		\$2.85	\$0.10	\$2.55	\$0.09

(The exchange rates provided by the Federal Reserve Bank of New York on 31 December 2013 and 2012 were NT\$29.83 and NT\$29.05 to US\$1.00)

The accompanying notes are an integral part of these financial statements.

English Translation of Financial Statements Originally Issued in Chinese

Cathay Century Insurance Co., Ltd. and Subsidiaries

Consolidated statements of changes in equity

For the years ended 31 December 2013 and 2012

(Expressed in thousands of dollars)

Items	Retained earnings										Other equity						Total	Non-controlling interest	Total equity			
	Common stock		Capital surplus		Legal reserve		Special capital reserve		Undistributed earnings		Exchange differences resulting from translating the financial statements of a foreign operation		Unrealized gains (losses) from available-for-sale financial assets		Gains (losses) on cash flow hedges				NTS	US\$	NTS	US\$
	NTS	US\$	NTS	US\$	NTS	US\$	NTS	US\$	NTS	US\$	NTS	US\$	NTS	US\$	NTS	US\$			NTS	US\$	NTS	US\$
Balance on 1 January 2012	\$2,317,006	\$79,760	\$1,929	\$66	\$834,443	\$28,724	\$462,480	\$15,921	\$169,836	\$5,846	\$(22,377)	\$(770)	\$(82,440)	\$(2,838)	\$28,521	\$981	\$3,709,398	\$127,690	\$629,070	\$21,655	\$4,338,468	\$149,345
Appropriations and distributions for 2011 (Note 1)																						
Legal reserve	-	-	-	-	120,357	4,143	-	-	(120,357)	(4,143)	-	-	-	-	-	-	-	-	-	-	-	-
Special capital reserve	-	-	-	-	-	-	53,919	1,856	(53,919)	(1,856)	-	-	-	-	-	-	-	-	-	-	-	
Stock dividends	205,944	7,089	-	-	-	-	-	-	(205,944)	(7,089)	-	-	-	-	-	-	-	-	-	-	-	
Provision for special reserve (Note 2)	-	-	-	-	-	-	407,498	14,027	(407,498)	(14,027)	-	-	-	-	-	-	-	-	-	-	-	
Net income for the year ended 31 December 2012	-	-	-	-	-	-	-	-	695,220	23,932	-	-	-	-	-	-	695,220	23,932	(324,496)	(11,170)	370,724	12,762
Other comprehensive income for the year ended 31 December 2012	-	-	-	-	-	-	-	-	-	-	(30,158)	(1,038)	153,970	5,300	(11,387)	(392)	112,425	3,870	(4,284)	(148)	108,141	3,722
Total comprehensive income	-	-	-	-	-	-	-	-	695,220	23,932	(30,158)	(1,038)	153,970	5,300	(11,387)	(392)	807,645	27,802	(328,780)	(11,318)	478,865	16,484
Balance on 31 December 2012	\$2,522,950	\$86,849	\$1,929	\$66	\$954,800	\$32,867	\$923,897	\$31,804	\$77,338	\$2,663	\$(52,535)	\$(1,808)	\$71,530	\$2,462	\$17,134	\$589	\$4,517,043	\$155,492	\$300,290	\$10,337	\$4,817,333	\$165,829
Balance on 1 January 2013	\$2,522,950	\$84,578	\$1,929	\$65	\$954,800	\$32,008	\$923,897	\$30,972	\$77,338	\$2,592	\$(52,535)	\$(1,761)	\$71,530	\$2,398	\$17,134	\$574	\$4,517,043	\$151,426	\$300,290	\$10,067	\$4,817,333	\$161,493
Appropriations and distributions for 2012 (Note 3)																						
Legal reserve	-	-	-	-	138,127	4,631	-	-	(138,127)	(4,631)	-	-	-	-	-	-	-	-	-	-	-	-
Reversal of special capital reserve	-	-	-	-	-	-	(53,919)	(1,808)	53,919	1,808	-	-	-	-	-	-	-	-	-	-	-	
Stock dividends	198,929	6,668	-	-	-	-	-	-	(198,929)	(6,668)	-	-	-	-	-	-	-	-	-	-	-	
Provision for special reserve (Note 2)	-	-	-	-	-	-	494,667	16,583	(494,667)	(16,583)	-	-	-	-	-	-	-	-	-	-	-	
Share of changes in net assets of associates and joint ventures accounted for using the equity method																						
Net income for the year ended 31 December 2013	-	-	-	-	-	-	-	-	775,441	25,995	-	-	-	-	-	-	775,441	25,995	(446,387)	(14,964)	329,054	11,031
Other comprehensive income for the year ended 31 December 2013	-	-	-	-	-	-	-	-	-	-	15,976	536	(140,360)	(4,705)	(7,113)	(239)	(131,497)	(4,408)	10,658	357	(120,839)	(4,051)
Total comprehensive income	-	-	-	-	-	-	-	-	775,441	25,995	15,976	536	(140,360)	(4,705)	(7,113)	(239)	643,944	21,587	(435,729)	(14,607)	208,215	6,980
Balance on 31 December 2013	\$2,721,879	\$91,246	\$1,929	\$65	\$1,092,927	\$36,639	\$1,364,645	\$45,747	\$74,975	\$2,513	\$(36,559)	\$(1,225)	\$(68,830)	\$(2,307)	\$10,021	\$335	\$5,160,987	\$173,013	\$350,112	\$11,737	\$5,511,099	\$184,750

Note 1: The employee bonus of NTS1,839 (US\$65) thousands was recorded as operating cost and expense in 2011.

Note 2: The special reserve was set aside in accordance with article 18 of "Regulation of the Management of Various Reserves by Insurance Enterprises".

Note 3: The employee bonus of NTS1,485 (US\$50) thousands was recorded as operating cost and expense in 2012.

(The exchange rates provided by the Federal Reserve Bank of New York on 31 December 2013 and 2012 were NTS29.83 and NTS29.05 to US\$1.00)

Cathay Century Insurance Co., Ltd. and Subsidiaries

Consolidated statements of cash flows

For the years ended 31 December 2013 and 2012

(Expressed in thousands of dollars)

Items	1 January - 31 December 2013		1 January - 31 December 2012	
	NT\$	US\$	NT\$	US\$
Cash flows from operating activities :				
Profit before tax	\$547,007	\$18,337	\$567,121	\$19,522
Adjustments :				
Income and other adjustments with no cash flow effects				
Depreciation	84,949	2,848	85,454	2,942
Amortization	33,204	1,113	23,262	801
Allowance for doubtful accounts	14,205	476	(309)	(11)
Net (gains) losses on financial asset or financial liability at fair value through profit or loss	164,117	5,502	(122,834)	(4,229)
Net (gains) losses on available-for-sale financial assets	(285,364)	(9,566)	(217,187)	(7,476)
Net (gains) losses from held-to-maturity financial assets	(3,134)	(105)	805	28
Interest income	(421,700)	(14,137)	(386,894)	(13,318)
Net changes of insurance liabilities	1,304,723	43,739	1,386,907	47,742
Share of profit of associates and joint ventures accounted for using the equity method	662	22	1,879	65
(Gains) losses on disposal of property and equipment	(3)	-	445	15
Changes in assets and liabilities from operating activities :				
(Increase) decrease in financial assets at fair value through profit or loss	(1,005,094)	(33,694)	255,773	8,805
Increase in notes receivable	(9,735)	(326)	(23,135)	(796)
Increase in premiums receivable	(6,507)	(218)	(327,146)	(11,262)
(Increase) Decrease in other accounts receivable	(403,151)	(13,515)	2,703	93
Decrease (Increase) in reinsurance contracts assets	472,648	15,845	(321,175)	(11,056)
Increase in other current assets	(142,725)	(4,785)	(200,887)	(6,915)
(Decrease) Increase in claims outstanding	(7,333)	(246)	4,039	139
Increase (Decrease) in due to reinsurers and ceding companies	158,144	5,301	(56,336)	(1,939)
Increase (Decrease) in commissions payable	35,925	1,204	(23,552)	(811)
Increase in other payables	42,190	1,414	38,186	1,314
Decrease in provision	(11,677)	(391)	(11,537)	(397)
(Decrease) Increase in other liabilities	(7,762)	(260)	181,007	6,231
Cash flows from operating activities	553,589	18,558	856,589	29,487
Interest paid	(19,683)	(660)	(2,599)	(90)
Income taxes paid	(13,051)	(437)	(13,618)	(469)
Net cash flows from operating activities	520,855	17,461	840,372	28,928
Cash flows from investing activities :				
Acquisition of available-for-sale financial assets	(5,675,814)	(190,272)	(5,744,213)	(197,735)
Disposal of available-for-sale financial assets	6,934,738	232,475	3,552,828	122,300
Acquisition of bond investments with no active market	(924,873)	(31,005)	(133,850)	(4,607)
Proceeds from repayments of bond investments without active market	200,000	6,705	-	-
Acquisition of held-to-maturity financial assets	(288,394)	(9,668)	(737,812)	(25,398)
Disposal of held-to-maturity financial assets	848,650	28,450	633,710	21,814
Acquisition of property and equipment	(229,058)	(7,679)	(49,042)	(1,688)
Disposal of property and equipment	24,438	819	7	-
Acquisition of intangible assets	(28,319)	(949)	(14,661)	(505)
Increase in secured loans	(33,960)	(1,138)	(89,206)	(3,071)
Decrease in secured loans	133,519	4,476	119,092	4,100
Interest received	398,961	13,374	344,249	11,850
Dividends received	97,923	3,283	60,584	2,086
Net cash flows from (used in) investing activities	1,457,811	48,871	(2,058,314)	(70,854)
Cash flows from financing activities:				
Issuance of common stock for cash	485,551	16,277	-	-
Net cash flows from financing activities	485,551	16,277	-	-
Effects of exchange rate changes on cash and cash equivalents	53,504	1,794	(31,074)	(1,070)
Increase(Decrease) in cash and cash equivalents	2,517,721	84,403	(1,249,016)	(42,996)
Cash and cash equivalents at the beginning of periods	5,677,051	190,313	6,926,067	238,419
Cash and cash equivalents at the end of periods	\$8,194,772	\$274,716	\$5,677,051	\$195,423

(The exchange rates provided by the Federal Reserve Bank of New York on 31 December 2013 and 2012 were NT\$29.83 and NT\$29.05 to US\$1.00)

The accompanying notes are an integral part of these financial statements.

English Translation of Financial Statements Originally Issued in Chinese

Cathay Century Insurance Co., Ltd. and Subsidiaries

Notes to consolidated financial statements

(Expressed in thousands of dollars unless otherwise stated)

31 December 2013 and 2012

1. History and organization

Cathay Century Insurance Co., Ltd. (the “Company”) was incorporated in Taiwan on 19 July 1993, under the provisions of the Company Act (the “Company Act”) of the Republic of China (“ROC”). On 22 April 2002, the Company became a subsidiary of Cathay Financial Holding Co., Ltd. by adopting the stock conversion method under the ROC Financial Holding Company Act (“Financial Holding Company Act”) and other pertinent laws of the ROC. On 2 August 2002, the Company officially changed its name from “Tong-Tai Insurance Co., Ltd.” to “Cathay Century Insurance Co., Ltd.”. The Company mainly engaged in the business of property and casualty insurance. The Company’s registered office and the main business location is at 1F, No.296, Sec. 4, Jen Ai Road, Taipei, Taiwan, ROC.

Cathay Financial Holding Co., Ltd. is the Company’s parent company and ultimate parent company.

2. Date and procedures of authorization of financial statements for issue

The consolidated financial statements of the Company and its subsidiaries the (“Consolidated Company”) for the years ended 31 December 2013 and 2012 were authorized for issue in accordance with a resolution of the Board of Directors on 13 March 2014.

3. Newly issued or revised standards and interpretations

- (1) Standards or interpretations issued, revised or amended, which are recognized by Financial Supervisory Commission (“FSC”), but not yet adopted by the Consolidated Company at the date of issuance of the Consolidated Company’s financial statements are listed below.

IFRS 9 Financial Instruments

IFRS 9 Financial Instruments which is divided in three distinct phases is designed by the International Accounting Standards Board (“IASB”) to eventually replace IAS 39 Financial Instruments: Recognition and Measurement in its entirety. The first phase relates to the classification and measurement of financial assets and liabilities that must be applied for annual periods beginning on or after 1 January 2015. The IASB will work on the remaining phases relate to impairment methodology and hedge accounting. However companies adopting International Financial Reporting Standards, International Accounting Standards, and Interpretations developed by the International Financial Reporting Interpretations Committee or the former Standing Interpretations Committee as recognized by the FSC (collectively referred to as “TIFRS”) may not early adopt IFRS 9. FSC will announce the local effective date for IFRS 9 in the future. Adopting the first phase of IFRS 9 will have an impact on the classification and measurement of financial assets. The impact of adopting the remaining two phases of IFRS 9 on the Company’s could not be determined at this stage.

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- (2) Standards or Interpretations issued by IASB but not yet recognized by FSC at the date of issuance of the Company's financial statements are listed below.

<u>The main content of standards or interpretations</u>	<u>The reporting date of adoption</u>
The revision for IFRS in 2010:	
IFRS 1“First-time Adoption of International Financial Standards”	Effective on 1 January 2011
IFRS 3 “Business Combinations”	Effective on 1 July 2010
IFRS 7“Financial Instruments: Disclosures”	Effective on 1 January 2011
IAS 1“Presentation of Financial Statements”	Effective on 1 January 2011
IAS 34“Interim Financial Reporting”	Effective on 1 January 2011
IFRIC 13“Customer Loyalty Programs”	Effective on 1 January 2011
According to IFRS 7, the exception of the comparable disclosure for entities who is first-time adoption is limited (revised IFRS 1 “First-time Adoption of International Financial Standards”)	Effective on 1 July 2010
Hyperinflation and remove of the specific date of first-time adoption.(revised IFRS 1“First-time Adoption of International Financial Standards”)	Effective on 1 July 2011
The amendment of IFRS 7“Financial Instruments: Disclosures”	Effective on 1 July 2011
Deferred income taxes: The recovery of targeted assets (IAS 12 “Income Taxes”)	Effective on 1 January 2012
IFRS 10“Consolidated Financial Statements”	Effective on 1 January 2013
IAS 27“Consolidated and Separate Financial Statements”	Effective on 1 January 2013
IFRS 11“Joint Arrangements”	Effective on 1 January 2013
IAS 28“Investments in Associates and Joint Ventures”	Effective on 1 January 2013
IFRS 12“Disclosure of Interests in Other Entities”	Effective on 1 January 2013
IFRS 13“Fair Value Measurement”	Effective on 1 January 2013
The presentation of the items for other comprehensive income or loss.(revised IAS 1 “Presentation of Financial Statements”)	Effective on 1 July 2012
The amendment of IAS 19“Employee Benefits”	Effective on 1 January 2013
The loan from the government(revised IFRS 1 “First-time Adoption of International Financial Standards”)	Effective on 1 January 2013
The disclosure for the offsetting of financial assets and liabilities (revised IFRS 7 “Financial Instruments: Disclosures”)	Effective on 1 January 2013
The offsetting of financial assets and liabilities(revised IAS 32 “Financial Instruments: Presentation”)	Effective on 1 January 2014
IFRIC 20 “Stripping Costs in the Production Phase of a Surface Mine”	Effective on 1 January 2013

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<u>The main content of standards or interpretations</u>	<u>The reporting date of adoption</u>
The improvement for IFRS from 2009 to 2011:	
IFRS 1 “First-time Adoption of International Financial Standards”	Effective on 1 January 2013
IAS 1 “Presentation of Financial Statements”	Effective on 1 January 2013
IAS 16 “Property, Plant and Equipment”	Effective on 1 January 2013
IAS 32 “Financial Instruments: Presentation”	Effective on 1 January 2013
IAS 34 “Interim Financial Reporting”	Effective on 1 January 2013
The amendment of IFRS 10 “Consolidated Financial Statements”	Effective on 1 January 2014
The amendment of IAS 36 “Impairment of Assets”	Effective on 1 January 2014
IFRIC 21 “Income Taxes”	Effective on 1 January 2014
Novation of Derivatives and Continuation of Hedge Accounting (Amendments to IAS 39 “Financial Instruments: Recognition and Measurement” and IFRS 9 “Financial Instruments”)	Effective on 1 January 2014
IFRS 9 “Financial Instruments” -Hedge accounting	Not been examined
IAS 19 “Employee Benefits” (Defined benefit plans: employee contributions)	Effective on 1 July 2014
The improvement for IFRS from 2010 to 2012:	
IFRS 2 “Share-based Payment”	Note 1
IFRS 3 “Business Combinations”	Note 2
IFRS 8 “Operating Segments”	Effective on 1 July 2014
IFRS 13 “Fair Value Measurement”	-
IAS 16 “Property, Plant and Equipment”	Effective on 1 July 2014
IAS 24 “Related Party Disclosures”	Effective on 1 July 2014
IAS 38 “Intangible Assets”	Effective on 1 July 2014
The improvement for IFRS from 2011 to 2013:	
IFRS 1 “First-time Adoption of International Financial Reporting Standards”	-
IFRS 3 “Business Combinations”	Effective on 1 July 2014
IFRS 13 “Fair Value Measurement”	Effective on 1 July 2014
IAS 40 “Investment Property”	Effective on 1 July 2014
IFRS 14 “Regulatory Deferral Accounts”	Effective on 1 January 2016

Note 1: The amendment prospectively applies to share-based payment transactions for which the grant date is on or after 1 July 2014.

Note 2: The amendments apply prospectively to business combinations for which the acquisition date is on or after 1 July 2014.

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Standards and interpretations impacting the company are listed below:

(1) Amendments to IFRSs in 2010

IFRS 7 “Financial Instruments: Disclosures”

The amendment emphasizes the interaction between quantitative and qualitative disclosures and the nature and extent of risks associated with financial instruments.

(2) Amendments to IFRS 7 “Financial Instruments: Disclosures”

The amendment requires additional quantitative and qualitative disclosures relating to transfers of financial assets, when financial assets are derecognised in their entirety, but the entity has a continuing involvement in them, or financial assets are not derecognised in their entirety.

(3) IFRS 12 “Disclosure of Interests in Other Entities”

IFRS 12 primarily integrates and makes consistent the disclosure requirements for subsidiaries, joint arrangements, associates and unconsolidated structured entities and present those requirements in a single IFRS.

(4) IFRS 13 “Fair Value Measurement”

IFRS 13 primarily relates to defining fair value, setting out in a single IFRS a framework for measuring fair value and requiring disclosures about fair value measurements to reduce complexity and improve consistency in application when measuring fair value. However, IFRS 13 does not change existing requirements in other IFRS as to when the fair value measurement or related disclosure is required.

(5) The Presentation of Items of Other Comprehensive Income (Revised IAS 1 “Presentation of Financial Statement”)

The amendments to IAS 1 change the grouping of items presented in Other Comprehensive Income. Items that would be reclassified (or recycled) to profit or loss in the future would be presented separately from items that will never be reclassified.

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(6) The amendment of IAS 19 “Employee Benefits”

The revision includes: (1) For defined benefit plans, the ability to defer recognition of actuarial gains and losses (i.e., the corridor approach) has been removed. Actuarial gains and losses are now recognized in Other Comprehensive Income. (2) Amounts recorded in profit or loss are limited to current and past service costs, gains or losses on settlements, and net interest income (expense). (3) New disclosures include quantitative information about the sensitivity of the defined benefit obligation to a reasonably possible change in each significant actuarial assumption. (4) Termination benefits will be recognized at the earlier of when the offer of termination cannot be withdrawn, or when the related restructuring costs are recognized under IAS 37 Provisions, Contingent Liabilities and Contingent Assets, etc..

(7) Amendments to IFRSs from 2009 to 2011

IAS 1 “Presentation of Financial Statements”

The amendment clarified the requirements listed following: (1) Disclose the difference between additional comparative information and mandatory comparative information. (2) When the enterprises additionally provide comparative information beyond the minimum requirement of comparative period, such information should be included in notes of financial statements, but it is unnecessary to provide whole financial statements of additional comparative period. (3) When the enterprises conduct the retrospective application of an accounting policy, restatement of items in financial statements or reclassification of items having material impact on the information in prior statements of financial position, they should prepare the statements of financial position of the earliest comparative period, except for the notes.

(8) The amendment of IAS 36 “Impairment of Assets”

This amendment relates to the amendment issued in May 2011 and requires entities to disclose the recoverable amount of an asset (including goodwill) or a cash-generating unit when an impairment loss has been recognized or reversed during the period. The amendment also requires detailed disclosure of how the fair value less costs of disposal has been measured when an impairment loss has been recognized or reversed, including valuation techniques used, level of fair value hierarchy of assets and key assumptions used in measurement.

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(9) IFRIC 21 “Levies”

This interpretation provides guidance on when to recognize a liability for a levy imposed by a government (both for levies that are accounted for in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets and those where the timing and amount of the levy is certain).

(10) The amendment of IAS 39 “Financial Instruments: Recognition and Measurement”

Under the amendment, there would be no need to discontinue hedge accounting if a hedging derivative was novated, provided certain criteria are met.

(11) IFRS 9 “Financial Instruments” (Hedge accounting and amendments to IFRS 9, IFRS 7 and IAS 39)

The IASB announced amendments to the accounting requirements for financial instruments, which include: (1) bring into effect a substantial overhaul of hedge accounting that will allow entities to better reflect their risk management activities in the financial statements; (2) allow the changes to address the ‘own credit’ not to be recognized in profit or loss that were already included in IFRS 9 Financial Instruments to be applied in isolation without the need to change any other accounting for financial instruments; and (3) remove the 1 January 2015 mandatory effective date of IFRS 9.

(12) IAS 19 “Employee Benefits” (Defined benefit plans: employee contributions)

The amendments apply to contributions from employees or third parties to defined benefit plans. The objective of the amendments is to provide a policy choice for a simplified accounting for contributions that are independent of the number of years of employee service, for example, employee contributions that are calculated according to a fixed percentage of salary.

(13) Improvements to International Financial Reporting Standards (2010-2012 cycle):

IFRS 13 “Fair Value Measurement”

The amendment to the Basis for Conclusions of IFRS 13 clarifies that when deleting paragraph B5.4.12 of IFRS 9 *Financial Instruments* and paragraph AG79 of IAS 39 *Financial Instruments: Recognition and Measurement* as consequential amendments from IFRS 13 *Fair Value Measurement*, the IASB did not intend to change the measurement requirements for short-term receivables and payables.

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IAS 16 “Property, Plant and Equipment”

The amendment clarifies that when an item of property, plant and equipment is revalued, the accumulated depreciation at the date of revaluation is adjusted to equal the difference between the gross carrying amount and the carrying amount of the asset.

IAS 24 “Related Party Disclosures”

The amendment clarifies that an entity providing key management personnel services to the reporting entity or to the parent of the reporting entity is a related party of the reporting entity.

(14) Improvements to International Financial Reporting Standards (2011-2013 cycle):

IFRS 1 “First-time Adoption of International Financial Reporting Standards”

The amendment clarifies that an entity, in its first IFRS financial statements, has the choice between applying an existing and currently effective IFRS or applying early a new or revised IFRS that is not yet mandatorily effective, provided that the new or revised IFRS permits early application.

IFRS 13 “Fair Value Measurement”

The amendment clarifies that paragraph 52 of IFRS 13 includes a scope exception for measuring the fair value of a group of financial assets and financial liabilities on a net basis. The objective of this amendment is to clarify that this portfolio exception applies to all contracts within the scope of IAS 39 Financial Instruments: Recognition and Measurement or IFRS 9 Financial Instruments, regardless of whether they meet the definitions of financial assets or financial liabilities as defined in IAS 32 Financial Instruments: Presentation.

IAS 40 “Investment Property”

The amendment clarifies the interrelationship of IFRS 3 and IAS 40 when classifying property as investment property or owner-occupied property; in determining whether a specific transaction meets the definition of both a business combination as defined in IFRS 3 Business Combinations and investment property as defined in IAS 40 Investment Property, separate application of both standards independently of each other is required.

The above mentioned standards and interpretations issued by IASB have not yet recognized by FSC at the date of issuance of the company’s financial statements, the local effective dates are to be determined by FSC. As the company is still currently determining the potential impact of the standards and interpretations listed above, it is not practicable to estimate their impact on the company at this point in time.

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Notes to consolidated financial statements (continued)

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4. Summary of significant accounting policies

(1) Statement of compliance

The consolidated financial statements of the Consolidated Company for the years ended 31 December 2013 and 2012 have been prepared in accordance with the Guidelines Governing the Preparation of Financial Reports by Insurance Enterprises and International Financial Reporting Standards, International Accounting Standards, and Interpretations developed by the International Financial Reporting Interpretations Committee or the former Standing Interpretation Committee as endorsed by the FSC.

(2) Basis of preparation

The consolidated financial statements have been prepared on a historical cost basis, except for financial instruments that have been measured at fair value. The consolidated financial statements are expressed in thousands of New Taiwan Dollars (“NT\$”) unless otherwise stated.

(3) Basis of consolidation

Preparation principle of consolidated financial statement

Subsidiaries are fully consolidated from the acquisition date, being the date on which the Company obtains control, and continue to be consolidated until the date that such control ceases. The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using uniform accounting policies. All intra-company balances, income and expenses, unrealized gains and losses and dividends resulting from intra-company transactions are eliminated in full.

A change in the ownership interest of a subsidiary, without a change of control, is accounted for as an equity transaction.

Total comprehensive income of the subsidiaries is attributed to the owners of the parent and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

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(Expressed in thousands of dollars unless otherwise stated)

If the Company loses control of a subsidiary, it:

- (a) derecognizes the assets (including goodwill) and liabilities of the subsidiary;
- (b) derecognizes the carrying amount of any non-controlling interest;
- (c) derecognizes the cumulative translation adjustments recognized in equity;
- (d) recognizes the fair value of the consideration received;
- (e) recognizes the fair value of any investment retained;
- (f) recognizes any surplus or deficit in profit or loss; and
- (g) reclassifies the parent's share of components previously recognized in other comprehensive income to profit or loss.

The consolidated entities are listed as follows:

Investor	Subsidiary	Business Nature	Ownership Interest			Notes
			2013.12.31	2012.12.31	2012.1.1	
The Company and Cathay Life Insurance Co., Ltd.	Cathay Insurance Company Ltd. (China) ("Cathay Insurance (China)")	Property Insurance	50.00%	50.00%	50.00%	Cathay Insurance (China) acquired an operation license of an enterprise as a juristic person on 26 August 2008. The Company and Cathay Life Insurance Co., Ltd. each owns 50% interest of Cathay Insurance (China).
The Company	Cathay Insurance (Vietnam) Ltd. ("Cathay Insurance (Vietnam)")	Property Insurance	100.00%	100.00%	100.00%	Cathay Insurance (Vietnam) acquired an operation license of an enterprise as a juristic person on 2 November 2010. The Company owns 100% interest of Cathay Insurance (Vietnam).

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(Expressed in thousands of dollars unless otherwise stated)

(4) Foreign currency transactions

The consolidated financial statements are presented in NT\$, which is also the Company's functional currency. Each entity in the Consolidated Company determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

Transactions in foreign currencies are initially recorded by the Consolidated Company entities at their respective functional currency rates prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency closing rate of exchange ruling at the reporting date. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined. Non-monetary items that are measured at historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions.

All exchange differences arising on the settlement of monetary items or on translating monetary items are taken to profit or loss in the period in which they arise except for the following:

- A. Exchange differences arising from foreign currency borrowings for an acquisition of a qualifying asset to the extent that they are regarded as an adjustment to interest costs are included in the borrowing costs that are eligible for capitalization.
- B. Foreign currency items within the scope of IAS 39 "Financial Instruments: Recognition and Measurement" are accounted for based on the accounting policy for financial instruments.
- C. Exchange differences arising on a monetary item that forms part of a reporting entity's net investment in a foreign operation is recognized initially in other comprehensive income and reclassified from equity to profit or loss on disposal of the net investment.

When a gain or loss on a non-monetary item is recognized in other comprehensive income, any exchange component of that gain or loss is recognized in other comprehensive income. When a gain or loss on a non-monetary item is recognized in profit or loss, any exchange component of that gain or loss is recognized in profit or loss.

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Notes to consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

(5) Translation of financial statements in foreign currency

The assets and liabilities of foreign operations are translated into NT\$ at the closing rate of exchange prevailing at the reporting date and their income and expenses are translated at an average rate for the period. The exchange differences arising on the translation are recognized in other comprehensive income. On the disposal of a foreign operation, the cumulative amount of the exchange differences relating to that foreign operation, recognized in other comprehensive income and accumulated in the separate component of equity, is reclassified from equity to profit or loss when the gain or loss on disposal is recognized. The following are accounted for as disposals even if an interest in the foreign operation is retained by the Group: the loss of control over a foreign operation, the loss of significant influence over a foreign operation, or the loss of joint control over a foreign operation.

On the partial disposal of a subsidiary that includes a foreign operation that does not result in a loss of control, the proportionate share of the cumulative amount of the exchange differences recognized in other comprehensive income is re-attributed to the non-controlling interests in that foreign operation. In partial disposal of an associate or jointly controlled entity that includes a foreign operation that does not result in a loss of significant influence or joint control, only the proportionate share of the cumulative amount of the exchange differences recognized in other comprehensive income is reclassified to profit or loss.

Any goodwill and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and expressed in its functional currency.

(6) Cash and cash equivalents

Cash and cash equivalents comprises cash on hand, demand deposits and short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

(7) Financial assets and financial liabilities

Recognition and Measurement

According to the IAS 39, financial assets are categorized as financial assets at fair value through profit or loss, available-for-sale financial assets, derivative financial assets for hedging, investments in debt securities with no active market, held-to-maturity financial assets, and secured loans and receivables. Financial liabilities are categorized as financial liabilities at fair value through profit or loss, derivative financial liabilities for hedging and financial liabilities carried at cost.

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Financial assets and financial liabilities within scope of IAS 39 are recognized initially at fair value plus or minus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

The Consolidated Company classifies the instrument issued as a financial liability or an equity instrument in accordance with the substance of the contractual arrangement and the definitions of a financial liability, and an equity instrument.

The Consolidated Company accounts for regular way purchase and sales of financial assets on the trade date.

Measurements of financial instruments are classified as follows:

A. Financial assets or liabilities at fair value through profit or loss

Financial assets or liabilities at fair value through profit or loss are categorized as held for trading or designated as assets or liabilities to be measured at fair value. Gains or losses from changes in fair values of such assets are reflected in the income statement.

Apart from derivatives and financial instruments designated as at fair value through profit or loss, financial instruments may be reclassified out of the fair value through profit or loss category if the financial instruments are no longer held for the purpose of selling or repurchasing them in the near term, and the following requirements are met:

- (a) Financial asset that would have met the definition of secured loans and receivables may be reclassified out of the fair value through profit or loss category if the entity has the intention and ability to hold the financial asset for the foreseeable future or until maturity.
- (b) Financial instruments that would not have met the definition of secured loans and receivables may be reclassified out of the fair value through profit or loss category only in rare circumstances.

The financial instrument shall be reclassified at its fair value on the date of reclassification. Any gain or loss already recognized in profit or loss shall not be reversed. The fair value of the financial instrument on the date of reclassification becomes its new cost or amortized cost, as applicable. Financial instrument shall not be reclassified into the fair value through profit or loss category after initial recognition.

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B. Available-for-sale financial assets

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified as financial assets at fair value through profit or loss, Secured loans and receivables, and held-to maturity financial assets.

Available-for-sale financial assets are measured at fair value in the balance sheet. Foreign exchange gains and losses and interest calculated using the effective interest method relating to monetary available-for-sale financial assets, or dividends on an available-for-sale equity instrument, are recognized in profit or loss. Subsequent measurement of available-for-sale financial assets at fair value is recognized in equity until the investment is derecognized, at which time the cumulative gain or loss is recognized in profit or loss.

Available-for-sale financial asset that would have met the definition of secured loans and receivables may be reclassified out of the available-for-sale category to the secured loans and receivables category if the entity has the intention and ability to hold the financial asset for the foreseeable future or until maturity. Upon reclassification, the fair value on the date of reclassification becomes its new cost or amortized cost, as applicable. Any previous gain or loss on the asset that has been recognized in stockholders' equity shall be amortized over the remaining life of the asset.

C. Derivative financial assets or liabilities for hedging

Derivative financial assets or liabilities that have been designated in hedge accounting and are effective hedging instruments shall be measured at fair value.

D. Held-to-maturity financial assets

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Consolidated Company has the intention and ability to hold to maturity. Such investments are subsequently measured at amortized cost. Gains or losses are recognized in the income statement when the investments are derecognized, impaired, or amortized. The amortized cost is computed as the cost (amount initially recognized) minus principle repayments, plus or minus the cumulative amortization using the effective interest method of any difference between cost and the maturity amount, and less the impairment. The contracts related to the financial assets, transactions costs, fees and premiums / discounts have been taken into the consideration of the effective interest rate calculation.

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E. Secured loans and receivables

Secured loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market other than those that the Consolidated Company upon initial recognition designates as available for sale, classified as at fair value through profit or loss, or those for which the holder may not recover substantially all of its initial investment.

Secured loans and receivables are separately presented on the balance sheet as receivables or bond investments for which no active market exists. After initial measurement, such financial assets are subsequently measured at amortized cost using the effective interest rate method, less impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fee or transaction costs. The effective interest method amortization is recognized in profit or loss.

F. Financial liabilities

The Consolidated Company uses amortized cost for subsequent valuation of financial liabilities, except for “financial liabilities at fair value through profit or loss” and “derivative financial liabilities for hedging” which are measured at fair value.

Fair values of financial instruments

The fair values of financial instruments traded on active liquid markets are determined with reference to quoted market prices. The quoted market prices of publicly traded stock and debt instrument traded on active liquid markets basis on TWSE, Bloomberg and Reuters.

The fair values of other financial instruments are determined in accordance with valuation technique including refer to fair value of similar financial instruments, income approach and others. (ex. the yield curves of OTC and average quoted price of commercial paper rate.)

The company evaluating low complexity of financial instruments, such as interest rate swaps, currency swaps contracts and options, the company uses evaluation techniques that the market participants widely used.

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For high complexity of financial instruments, the Consolidated Company measure the fair value is accrued based on the self-developed evaluation model that the same trade widely used evaluation method and techniques. Such evaluation models typically use derivative instruments, no public market prices of equity and debt instruments (including embedded derivatives of debt instruments) or other markets illiquid debt instruments.

Derecognizing of financial assets and liabilities

A. Financial assets

An entity shall derecognize a financial asset when the contractual rights to the cash flows from the financial asset expire or the entity transfers substantially all the risks and rewards of ownership of the financial asset, the entity shall derecognize the financial asset . An entity shall remove a financial liability when the obligation specified in the contract is discharged or cancelled or expires. The Consolidated Company doesn't derecognize financial assets when operate borrowing securities transaction or financial assets guarantee for repurchase agreement. The risk and rewards of the assets keep in the company.

B. Financial liabilities

A financial liability (or a portion) is derecognized when the obligation under the liability agreement is discharged or cancelled or expires.

Where an existing financial liability is replaced by another one from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference between the respective carrying amounts is recognized in the income statement.

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Reclassification of financial assets

According to IAS 39, the Consolidated Company reclassifies financial assets as follows:

- A. shall not reclassify a derivative out of the fair value through profit or loss category while it is held or issued.
- B. shall not reclassify any financial instrument out of the fair value through profit or loss category if upon initial recognition it was designated by the entity as at fair value through profit or loss.
- C. if a financial asset is no longer held for the purpose of selling or repurchasing it in the near term, reclassify that financial asset out of the fair value through profit or loss category only in rare circumstances.
- D. an entity shall not reclassify any financial instrument into the fair value through profit or loss category after initial recognition.
- E. if, as a result of a change in intention or ability, it is no longer appropriate to classify an investment as held to maturity, it shall be reclassified as available for sale and remeasured at fair value, and the difference between its carrying amount and fair value shall be recognized in other comprehensive income.
- F. whenever sales or reclassification of more than an insignificant amount of held-to-maturity investments during the current financial year or during the two preceding financial years, any remaining held-to-maturity investments shall be reclassified as available for sale.

Offsetting a financial asset and a financial liability

A financial asset and a financial liability shall be offset and the net amount presented in the statement of financial position when and only when, an entity:

- A. currently has a legally enforceable right to set off the recognized amounts; and
- B. intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

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Impairment of financial assets

The Company assesses at each reporting date whether there is any objective evidence that a financial asset other than the financial assets at fair value through profit or loss is impaired. A financial asset is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more loss events that has occurred after the initial recognition of the asset and that loss event has an impact on the estimated future cash flows of the financial asset. The carrying amount of the financial asset is reduced through the use of an allowance account and the amount of the loss is recognized in profit or loss.

A significant or prolonged decline in the fair value of an available-for-sale equity instrument below its cost is considered a loss event.

Other loss events include:

- A. significant financial difficulty of the issuer or obligor; or
- B. a breach of contract, such as a default or delinquency in interest or principal payments; or
- C. it becoming probable that the borrower will enter bankruptcy or other financial reorganisation;
- D. the disappearance of an active market for that financial asset because of financial difficulties.

The impaired ways of different financial assets are as follows:

A. Available-for-sale financial assets

If an available-for-sale financial asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortization) and its current fair value, less any impairment loss previously recognized in profit or loss, is transferred from equity to the income statement. Reversals in respect of equity instruments classified as available-for-sale are recognized in other rather than profit or loss.

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In the case of debt instruments classified as available-for-sale, the amount recorded for impairment is the cumulative loss measured as the difference between the amortized cost and the current fair value, less any impairment loss on that investment previously recognized in profit or loss. Future interest income continues to be accrued based on the reduced carrying amount of the asset, using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recognized in profit or loss. If, in a subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the impairment loss is reversed through profit or loss.

B. Financial assets carried at amortized cost(Investments in debt securities with no market)

If there is objective evidence that an impairment loss on financial assets carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. The carrying amount of the asset shall be reduced either directly or through use of an allowance account. The amount of the loss shall be recognized in profit or loss.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment is recognized, the previously recognized impairment loss is reversed. Any subsequent reversal of an impairment loss is then recognized in the income statement, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

Derivative financial instruments

The Consolidated Company enters into a variety of derivative financial instrument to manage its market risk exposure to foreign exchange rate and interest rate, including forward exchange contracts, interest rate swaps, cross currency swap contracts, options and futures. Derivatives and initially recognized and measured at fair value, when its fair value become positive number are recognized as assets, otherwise recognized as liabilities.

Any gains or losses arising from changes in fair value on derivatives that do not qualify for hedge accounting are taken directly to net profit or loss for the period.

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For the purpose of hedge accounting, hedges are classified as:

- A. Fair value hedges when hedging the exposure to changes in the fair value of a recognized asset or liability.
- B. Cash flow hedges when hedging exposure to variability in cash flows that is either attributable to a particular risk associated with a recognized asset or liability or a highly probable forecasted transaction. The variation will be recognized in profit or loss.
- C. The Company's net investments in foreign subsidiaries hedges when hedging exposure to variability in foreign currency risk.

At the inception of a hedge relationship, the Consolidated Company formally designates and documents hedge relationship to which the Consolidated Company wishes to apply hedge accounting, the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's fair value attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

Hedges in compliance with hedge accounting requirements are accounted for as follows:

A. Fair value hedges

Fair value hedges are hedges of the Company's exposure to changes in fair value of a recognized asset or liability or an unrecognized firm commitment, or an identified portion of such an asset, liability or firm commitment, that is attributable to a particular risk which could impact profit or loss. The carrying amount of the fair value hedged item is adjusted for gains or losses attributable to the risk being hedged. The underlying derivative is remeasured at fair value and resulting gains or losses are recognized as profit or loss.

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For fair value hedge relating to item carried at amortized cost, the adjustment to carrying value is amortized through profit or loss over the remaining term to maturity. Any adjustment to the carrying amount of a hedged financial instrument for which the effective interest method is used is amortized to profit or loss.

The Company discontinues fair value hedge accounting if the hedging instrument expires or is sold, terminated or exercised, the hedge no longer meets the criteria for hedge accounting or the Company revokes the designation.

B. Cash flow hedges

Cash flow hedges are a hedge of the exposure to variability in cash flows that is attributable to a particular risk associated with a recognized asset or liability or a highly probable forecasted transaction and could affect profit or loss. The effective portion of the gain or loss on the hedging instrument is recognized directly in other equity, while the ineffective portion is recognized in profit or loss.

Amounts taken to equity are transferred to the income statement when the hedged transaction affects profit or loss, such as when hedged financial income or financial expense is recognized or when a forecast sale or purchase occurs. Where the hedged item is the cost of a non-financial asset or liability, the amounts taken to equity are transferred to the initial carrying amount of the non-financial asset or liability.

If the forecast transaction is no longer expected to occur, amounts previously recognized in equity are transferred to profit or loss. If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover, or if its designation as a hedge is revoked, amounts previously recognized in equity remain in equity until the forecast transaction occurs. If the related transaction is not expected to occur, the amount is taken to profit or loss.

C. Hedges of a net investment in a foreign operation

Hedges of a net investment in a foreign operation, including a hedge of a monetary item that is accounted for as part of the net investment, are accounted for in a way similar to cash flow hedges. Gains or losses on the hedging instruments relating to the effective portion of the hedge are recognized directly in equity while any gains or losses relating to the ineffective portion are recognized in profit or loss. On disposal of the foreign operation, the cumulative value of any such gains or losses recognized directly in equity is transferred to profit or loss.

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(8) Assessment of impairment for loans and receivables

The Company first assesses whether objective evidence of impairment exists individually for loans and receivables that are individually significant. If there is objective evidence that an impairment loss on individual loan or receivable has been incurred, the amount of impairment loss should be assessed individually. If there is objective evidence that an impairment loss on a loan or receivable that is not individually significant has been incurred, the Company shall include the asset in a group of financial assets with similar credit risk characteristics and collectively assess them for impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is recognized and measured as the difference between the loan or receivable's carrying amount and the present value of estimated future cash flows discounted at its original effective interest rates (excluding future credit losses that have not been incurred). If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

If, in a subsequent period, the amount of the impairment loss decreases, and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed and recognized through profit and loss. The reversal shall not result in a carrying amount of notes, accounts and other receivables that exceeds what the amortized cost would have been had impairment not been recognized at the date the impairment is reversed. The amount of the reversal shall be recognized in profit or loss.

In addition, in accordance with the regulation of "Guidelines for Insurance Enterprises on Handling Assessment of Assets, Overdue Loans, Receivables on Demand and Bad Debts", the Company is required to record the minimum amounts based upon each of the following category for allowance of uncollectible accounts: 0.5 percent of the ending balance of the first category of loan assets excluding life insurance loans, automatic premium loans and government debts holdings to be reserved within three years starting on 1 January 2011, 2 percent of the ending balance of the second category of loan assets, 10 percent of the ending balance of the third category of loan assets, as well as 50 and 100 percent of the ending balance of the fourth and fifth category of loan assets, respectively.

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(9) Investments accounted for using the equity method

The Company's investment in its associate is accounted for using the equity method other than those that meet the criteria to be classified as held for sale. An associate is an entity over which the Company has significant influence.

Under the equity method, the investment in the associate is carried in the balance sheet at cost and adjusted thereafter for the post-acquisition change in the Company's share of net assets of the associate. After the interest in the associate is reduced to zero, additional losses are provided for, and a liability is recognized, only to the extent that the Company has incurred legal or constructive obligations or made payments on behalf of the associate. Unrealized gains and losses resulting from transactions between the Company and the associate are eliminated to the extent of the Company's related interest in the associate.

When changes in the net assets of an associate occur and are not those recognized in profit or loss or other comprehensive income and do not affect the Company's percentage of ownership interests in the associate, the Company recognizes such changes in equity based on its percentage of ownership interests. The resulting capital surplus recognized will be reclassified to profit or loss at the time of disposing the associate on a pro rata basis.

When an associate issues new stock and the Company's interest in the associate is reduced or increased as the Company fails to acquire shares newly issued in the associate proportionately to its original ownership interest, the increase or decrease in the interest in the associate is recognized in Additional paid-in capital and Investments in associates. When the interest in the associate is reduced, the cumulative amounts previously recognized in other comprehensive income are reclassified to profit or loss or other appropriate items. The aforementioned capital surplus recognized is reclassified to profit or loss on a pro rata basis when the Company disposes the associate.

The financial statements of the associates are prepared for the same reporting period as the Company. Where necessary, adjustments are made to bring the accounting policies in line with those of the Company.

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In accordance with IAS 39 Financial Instruments: Recognition and Measurement, the Company determines at each reporting date whether there is any objective evidence that an investment in an associate is impaired. If this is the case, the Company calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognizes the amount in the ‘share of profit or loss of an associate’ in the statement of comprehensive income as required by IAS 36 Impairment of Assets. If using the investment’s value in use as the recoverable amount, the Company determines the value in use based on the followings estimates:

- A. Future cash flows the Company expects to derive from the investment in the associate, including cash flows from the operation of the associate and from the ultimate disposal of such investment, or
- B. Present value of the future cash flows from dividends expected to be received from the associate and from the disposal of the investment.

Because goodwill included as part of the carrying amount of an investment in an associate is not separately recognized, it is not tested for impairment separately by applying the requirements for goodwill impairment testing in IAS 36 Impairment of Assets.

Upon loss of significant influence over the associate, the Company measures and recognizes any retaining investment at its fair value. Any difference between the carrying amount of the associate upon loss of significant influence and the fair value of the retaining investment and proceeds from disposal is recognized in profit or loss.

(10) Property and equipment

Property and equipment is stated at cost, net of accumulated depreciation and accumulated impairment losses, if any. Such cost includes the cost of dismantling and removing the item and restoring the site on which it is located and borrowing costs for construction in progress if the recognition criteria are met. Each part of an item of property and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

When significant parts of property and equipment are required to be replaced in intervals, the Consolidated Company recognized such parts as individual assets with specific useful lives and depreciation, respectively. The carrying amount of those parts that are replaced is derecognized in accordance with the derecognition provisions of IAS 16 “Property, plant and equipment”. When a major inspection is performed, its cost is recognized in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied.

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All other repair and maintenance costs are recognized in profit or loss as incurred.

Depreciation is calculated on a straight-line basis over the estimated economic lives of the following assets:

Transportation equipment	5years
Office equipment	5years
Leased assets	5~50years
Leasehold improvements	The shorter of lease terms or economic useful lives

An item of property and equipment and any significant part initially recognized is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset is recognized in profit or loss.

The assets' residual values, useful lives and methods of depreciation are reviewed at each financial year end and adjusted prospectively, if appropriate.

(11) Leases

Finance leases which transfer to the Company substantially all the risks and benefits incidental to ownership of the leased item, are capitalized at the commencement of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognized in profit or loss.

A leased asset is depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Company will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

Operating lease payments are recognized as an expense on a straight-line basis over the lease term.

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(12) Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is its fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and accumulated impairment losses, if any. Internally generated intangible assets, excluding capitalized development costs, are not capitalized and expenditure is reflected in profit or loss for the year in which the expenditure is incurred.

The useful lives of intangible assets of the company are deemed finite.

Intangible assets with finite lives are amortized over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life is reviewed at least at the end of each financial year. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortization period or method, as appropriate, and are treated as changes in accounting estimates.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in profit or loss when the asset is derecognized.

(13) Impairment of non-financial assets

The Consolidated Company assesses at the end of each reporting period whether there is any indication that an asset in the scope of IAS 36 “Impairment of Assets” may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, Consolidated Company estimates the asset’s recoverable amount. An asset’s recoverable amount is the higher of an asset’s or cash-generating unit’s (“CGU”) fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

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For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the Consolidated Company estimates the asset's or cash-generating unit's recoverable amount. A previously recognized impairment loss is reversed only if there has been an increase in the estimated service potential of an asset which in turn increases the recoverable amount. However, the reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years.

An impairment loss of continuing operations or a reversal of such impairment loss is recognized in profit or loss.

(14) Separation requirement for specific assets

According to Article 4 of "Regulations for the Reports of Accounting and Financial Information for Compulsory Automobile Liability Insurance" that authority to set from Section 3, Article 47 of "Compulsory Automobile Liability Insurance Act", the Company provides compulsory automobile liability insurance ("this insurance") and transact accounting amount of this insurance.

According to article 5 of "Regulations for the Management of the Various Reserves for Compulsory Automobile Liability Insurance", for the special reserve set aside by the Company for this insurance, the Company shall purchase treasury bills or deposit the reserve with a financial institution as a time deposit. Provided that with the approval of the competent authority, the Company may purchase the following domestic securities:

A. Government bonds, not including exchangeable government bonds.

B. Financial bonds, negotiable certificates of deposit, banker's acceptances, and commercial paper guaranteed by a financial institution, provided that financial bonds shall be limited to ordinary financial bonds only.

The amount of treasury bills purchased or time deposits placed in a financial institution under the preceding paragraph shall not be less than 30 percent of the total amount of the Company's retained earned pure premiums for this Insurance in the most recent period. The competent authority may raise that percentage to a level it deems appropriate based on the Company's operational status.

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If the balance of the Company's special reserve is less than 30 percent of the total amount of the Company's retained earned pure premiums for this Insurance in the most recent period, then the full amount of its special reserve shall be used to purchase treasury bills or be deposited in a financial institution as a time deposit.

According to article 6 of “Regulations for the Management of the Various Reserves for Compulsory Automobile Liability Insurance”, except for the special reserve set aside as prescribed in the preceding paragraphs, funds held by the Company for this Insurance (reserves, payables, temporary credits and amounts to be carried forward) shall be deposited in a financial institution in the form of demand deposits and time deposits, provided that with the approval of the competent authority, the Company may purchase any of the following domestic securities:

- A. Treasury bills.
- B. Negotiable certificates of deposit, bankers' acceptances, and commercial paper guaranteed by a financial institution.
- C. Government bonds in a repo transaction.

The amount of demand deposits deposited in financial institutions under the preceding paragraph shall not be less than 60 percent of the balance remaining after subtracting the amount of special reserves from the amount of funds held by the Company due to the operation of this Insurance, or less than 40 percent of the retained earned pure premium for the most recent period as audited or reviewed by a certified public accountant. The competent authority may raise the percentage of demand deposits required by the Company to a level it deems appropriate based on the Company's operational status.

If the total amount of unearned premium reserve and loss reserve of the Company with respect to this Insurance is less than 40 percent of the retained earned pure premiums of this Insurance for the most recent period as audited or reviewed by a certified public accountant, the funds held by the Company through its conduct of this Insurance shall be deposited in full with a financial institution in the form of demand deposits.

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According to article 11 of “Regulations for the Management of the Various Reserves for Compulsory Automobile Liability Insurance”, when the Company suspends business operations or terminates its operation of this Insurance, the various reserves for this Insurance shall be transferred into the various reserves set aside for handling of this Insurance by the other insurer that assumes the business. If no other insurer is to assume the business, and there is no outstanding liability under this Insurance, and the balance of the special reserve is positive, the assets corresponding to the special reserve shall be transferred to the Motor Vehicle Accident Compensation Fund.

When the Company has been duly ordered to suspend business and undergo rehabilitation, ordered to dissolve, or its permission to operate this Insurance business has been revoked, and no other insurer is to assume this Insurance business, and there is no outstanding liability under this Insurance and the balance of the special reserve is positive, the assets corresponding to the special reserve shall be transferred to the Motor Vehicle Accident Compensation Fund.

(15) Insurance contract categories

Insurance contract refers to the insurer accepting the insurance policyholder’s transfer of significant insurance risk, and agree to the uncertain future of a particular event (insured event) and the contract will compensate the policyholder for any damages occurred. The Company defined that significant insurance risk refers to any insured event that occurs and causes the Company to pay additional significant fees.

Insurance contract with features of financial instruments are contracts that transfer the financial risk. The definition of a financial risk refers to one or more specific interest rate, prices of financial instruments, product prices, exchange rates, price index, rate index, credit ratings and index, and other variables that faces risk of possible future changes. If the above variables are not considered as a financial variable, then the variables exist in both sides under the contract.

When the original judgment meet the criteria of the policy under the insurance contract, before the right of ownership and obligations expired or disappeared, the policy will still be considered as an insurance contract; even if the exposure to insurance risk during the policy period has been significantly reduced. However, if insurance risk following the renewal of an insurance contract with features of financial instruments is transferred to the Company, the Company will reclassify the contract as an insurance contract.

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(16) Reinsurance contracts assets

The Company limits exposure to some events that may cause a certain amount of loss and this is done in accordance to sale's needs and the insurance laws and regulations for reinsurance. For reinsurance ceded, the Company can't refuse to fulfill its obligations to the insured because the re-insurers failed to fulfill their responsibility.

The Company holds the right over re-insurers for reinsurance reserve assets, claims recoverable from reinsurers-net and due from reinsurers and ceding companies, and regularly assess if impairment has occurred to such rights or the rights can no longer be recovered.

For the Classification of reinsurance contracts, the Company assess whether the transfer of significant insurance risk to the re-insurers has occurred. If the transfer of significant insurance risk was not apparent, then the contract is recognized and evaluated with deposit accounting.

(17) Insurance liabilities

Insurance liabilities are set aside in accordance with "Regulations for the Management of the Various Reserves by Insurance Enterprises", "Regulations for the Management of the Various Reserves for Compulsory Automobile Liability Insurance", "Enforcement Rules for the Risk Spreading Mechanism of Residential Earthquake Insurance", "Regulations for the Management of the Various Reserves for Nuclear energy insurance", "Regulations for the Management of the Various Reserves for Commercial Earthquake and Typhoons Flood Insurance by Property and Casualty Insurance Enterprises" and "Precautions of strengthening disaster insurance of property insurance industry(commercial earthquake and typhoons flood insurance)". Also, the booked reserves shall be validated by the certified actuarial professionals approved by Financial Supervisory Commission.

A. Unearned premium reserve

The reserve for unearned premiums represents the portion of premiums written related to the unexpired terms of coverage, which shall be set aside based on each unexpired underlying risk.

B. Claims reserve

It is mainly for the unpaid claim reserve and incurred but not reported (IBNR) claim reserves, which is calculated and deposited based upon the past indemnity experiences and expenses occurred to meet the actuarial principle. The notified but unpaid claim reserve is assessed case by case as well as its relevant information obtained and deposited by each type of insurance.

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C.Special reserve

The special reserve is classified into 2 categories, “Special reserve for major incident” and “Special reserve for fluctuation of risks”. For the special reserves set aside by the Company before 1 January 2011, they should be shown as a liability item on the balance sheet. Since 1 January 2011, the after-tax addressed amount of the special reserve should be placed in the special reserve under stock holder’s equity. The recovery of special reserve can be charged against the special reserve under liabilities if sufficient. If the recovery amount exceeds the balance of the special reserve under liabilities, the after-tax excess amount can be recovered from the special reserve under stock holder’s equity.

According to the “Precautions of strengthening disaster insurance of property insurance industry(commercial earthquake and typhoons flood insurance)”, the industry that order for these insurance should provision the special reserve from liability to equity when the company priority complement commercial earthquake insurance and typhoons flood insurance into liability(after tax), excluding compulsory automobile liability insurance, nuclear energy insurance, political housing earthquake insurance, commercial earthquake insurance and typhoons flood insurance. The decrease or withdrawing of special reserve for major incident and special reserve for fluctuation of risks of commercial earthquake insurance and typhoons flood insurance should follow the precautions.

a. Special reserve for major incident

All types of insurance should follow the special reserve for major incident rates set by the authorities.

Upon occurrence of the catastrophic events, actual retained claims in excess of NT\$30,000 thousands individually and the aggregate payment of loss of the whole property and casualty insurers in excess of NT\$2,000 millions, the fund of the claims can be withdrawn from the special reserve.

If the reserve has been set aside for over 15 years, the Company could has its plan of recovering process of the reserve accessed by certified actuaries and submit the plan to the authority for reference.

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b. Special reserve for fluctuation of risks

When the actual claim paid for each insurance product categories minus the offsetting amount from special reserve of major incidents is less than the anticipated loss, 15 percent of this difference should be reserved in special reserve for fluctuation of risks.

When the actual claim paid for each insurance product categories minus the offsetting amount from special reserve of major incidents is greater than the anticipated loss, the exceed amount can be used for writing down the special reserve for fluctuation of risks. If the total amount of the special reserve is not enough to be written down, special reserve for fluctuation of risks of other insurance product categories can be used. Additionally, the type of insurance and total dollar amount written-down should be reported to the authority for inspection purpose.

When accumulative dollar amount of the special reserve for fluctuation of risks exceed 60% of its retained earned premium, the excess amount should be recall and recognize as income for the current year.

D. Premiums deficiency reserve

If the probable claims and expenses of the unexpired insurance contracts are greater than the aggregate amount of unearned premium reserves and collectable premiums in the future, the premium deficiency reserve should be set aside based on the difference thereof.

(18) Insurance premium revenues and the acquisition costs

Direct premiums are recognized on the date when the policies became effective. Policy related expenses are recognized when incurred. Reinsurance premiums and reinsurance commission expenses are recognized upon the assumption of reinsurance. Claim expenses for assumed reinsurance policies are recognized upon notification that claim payments are due. Adjustments are made at year-end and are made based on past experience.

The reserve for unearned premiums represents the portion of premiums written related to the unexpired terms of coverage, which shall be set aside based on each unexpired underlying risk.

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The amount of unearned premium reserve for compulsory automobile liability insurance is set aside pursuant to Regulations for the Management of the Various Reserves for Compulsory Automobile Liability Insurance.

The amount of unearned premium reserve for the residential earthquake insurance is set aside pursuant to Enforcement Rules for the Risk Spreading Mechanism of Residential Earthquake Insurance.

The amount of unearned premium reserve for the nuclear insurance is set aside pursuant to Regulations for the Management of the Various Reserves for the nuclear Insurance.

Calculation of unearned premium reserve is determined by actuaries based on characteristics of insurances and cannot be changed without the Authority's approval unless otherwise regulated by Law. The amount of unearned premium reserve should be audited by a certified Actuary.

Taxes related to the insurance premium revenues are recognized pursuant to Value-added and Non-value-added Business Tax Act and Stamp Tax Act on an accrual basis.

(19) Insurance claim costs

The insurance claims payment of direct written policies is recognized as the amount of actual payment of incurred and reported case. For those incurred but unpaid claim cases and outstanding claim cases, the gross change of claims reserve is assessed case by case as well as its relevant information obtained and deposited by each type of business line.

The reinsurance claims payments are recognized upon notification. Adjustments are made at balance sheet date, and recognized under the account of gross change of reinsurance claims reserve.

The IBNR of direct written business and ceded in business is calculated and deposited based upon the past indemnity experiences and expenses occurred to meet the actuarial principle.

The claims recovered from reinsurance account for those paid claims would recover from re-insurers according to reinsurance contracts. For those reported but unpaid claims and IBNR claims, are recognized as the gross change of claims reserve.

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Claim reserve is not discounted to its present value.

The amount of claim reserve for compulsory automobile liability insurance is set aside pursuant to Regulations for the Management of the Various Reserves for Compulsory Automobile Liability Insurance.

The amount of claim reserve for the residential earthquake insurance is set aside pursuant to Enforcement Rules for the Risk Spreading Mechanism of Residential Earthquake Insurance.

The amount of claim reserve for the nuclear insurance is set aside pursuant to Regulations for the Management of the Various Reserves for the nuclear Insurance.

(20) Liability adequacy test

In alignment with Article 24-1 of Regulations for the Various Reserves of Insurance Industry, an insurer shall assess at the end of each reporting period whether its recognized insurance liabilities are adequate, using current estimates of future cash flows of those insurance contracts that meet the requirements of liability adequacy test under IFRS 4. If that assessment shows that the carrying amount of its insurance liabilities is inadequate, a reserve shall be set aside to cover the entire deficiency based on actuarial principles.

(21) Reinsurance ceded

In order to limit the amount of losses resulting from certain incidents, the Consolidated Company conducts reinsurances based on business needs and pursuant to regulations of insurance laws. The Consolidated Company cannot use reinsurer's not fulfilling its obligations as a reasonable cause to not fulfill obligations to re-insurers of insurance contracts ceded.

Reinsurance expenses are recognized under reinsurance contracts and its financial reporting including cutoff of reporting periods shall match to insurance premium revenues. Unbilled reinsurance expenses shall be estimated using a reasonable and systematic method at financial closing. Relevant revenues such as reinsurance commission revenues, etc, are recognized in the same period, and relevant reinsurance gains and losses shall not be deferred.

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Reinsurance assets include ceded unearned premiums reserve, ceded claims reserve, ceded premiums deficiency reserve, and ceded liability adequacy reserve, and represent rights to reinsurers pursuant to Regulations for the Various Reserves of Insurance Industry and reinsurance contracts.

The Consolidated Company regularly assesses whether reinsurance assets, claims recoverable from ceding companies, due from reinsurers and ceding companies prescribed in the previous paragraphs are impaired or unable to collect. When there is objective evidence, as a result of an event that occurred after initial recognition of the reinsurance asset, that the cedant may not receive all amounts due to it under the terms of the contract, and that event has a reliably measurable impact on the amounts that the cedant will receive from the reinsurer, the Consolidated Company recognizes the amount of accumulated impairment losses based on the difference between the recoverable amount and the carrying value of reinsurance assets, and sets aside a fair amount of bad debt allowances on unrecoverable amount of claims recoverable from ceding companies, due from reinsurers and ceding companies.

(22) Co-insurance organization, co-insurance and guarantee fund agreement

The company and all the members approved by the competent authority set the “Co-insurance contract of compulsory automobile liability insurance”, agreed that the business should be fully included in the co-insurance, violators have to pay liquidated damages and agreed to inspect by co-insurance team. The business is calculated on the basis of pure premiums and in accordance with the agreed portion. In addition to the liquidation or went out of business, the members shall not withdraw. If members stop operating the automobile liability insurance, simultaneously withdraw from the co-insurance group.

The company, the property insurance company with order for traveling industry performance guarantee insurance and the co-insurance company set the “Co-insurance contract of traveling industry performance guarantee insurance”, agreed that the business should be fully included in the co-insurance, violators have to pay liquidated damages and agreed to inspect by co-insurance organization. The business is calculated on the basis of co-insurance premium and in accordance with the agreed proportion. Members shall notice in writing when going to withdraw from co-insurance before following year began three months ago.

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(23) Contribution to the stabilization funds

The Company makes a monthly contribution based on 2‰ of the gross premiums to the stabilization funds and deposits it in “Property Insurance Stabilization Fund Committees”. It is reported as “Contribution to the Stabilization funds” in the income statement.

(24) Post-employment benefits plan

All regular employees of the Company and its domestic subsidiaries are entitled to a pension plan that is managed by an independently administered pension fund committee. Fund assets are deposited under the committee’s name in the specific bank account and hence, not associated with the Company and its domestic subsidiaries. Therefore fund assets are not included in the Group’s consolidated financial statements. Pension benefits for employees of the overseas subsidiaries and the branches are provided in accordance with the respective local regulations.

For the defined contribution plan, the Company and its domestic subsidiaries will make a monthly contribution of no less than 6% of the monthly wages of the employees subject to the plan. The Company recognizes expenses for the defined contribution plan in the period in which the contribution becomes due. Overseas subsidiaries and branches make contribution to the plan based on the requirements of local regulations. Post-employment benefit plan that is classified as a defined benefit plan uses the Projected Unit Credit Method to measure its obligations and costs based on actuarial assumptions. The Company specifies that if the accumulated unrecognized actuarial gains and losses exceed 10% of the greater of the defined benefit obligation or the fair value of plan assets, a portion of that net gain or loss is required to be recognized immediately as income or expense. The portion recognized is the excess divided by the expected average remaining working lives of the participating employees.

Pension cost for an interim period is calculated on a year-to-date basis by using the actuarially determined pension cost rate at the end of the prior financial year, adjusted and disclosed for significant market fluctuations since that time and for significant curtailments, settlements, or other significant one-off events.

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(25) Income taxes

Income tax expense (income) is the aggregate amount included in the determination of profit or loss for the period in respect of current tax and deferred tax.

Current income tax

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities, using the tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period. Current income tax relating to items recognized in other comprehensive income or directly in equity is recognized in other comprehensive income or equity and not in profit or loss.

The 10% income tax for undistributed earnings is recognized as income tax expense in the subsequent year when the distribution proposal is approved by the Shareholders' meeting.

Deferred tax

Deferred tax is provided on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognized for all taxable temporary differences, except:

- A. Where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.
- B. In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognized for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilized, except:

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- A. Where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.
- B. In respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the reporting date. The measurement of deferred tax assets and deferred tax liabilities reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax relating to items recognized outside profit or loss is recognized outside profit or loss. Deferred tax items are recognized in correlation to the underlying transaction either in other comprehensive income or directly in equity. Deferred tax assets are reassessed at each reporting date and are recognized accordingly.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current income tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Interim period income tax expense is accrued using the tax rate that would be applicable to expected total annual earnings, that is, the estimated average annual effective income tax rate applied to the pre-tax income of the interim period.

In accordance with Article 49 of the Financial Holding Company Act, the Company and its parent company jointly filed corporation income tax returns and 10% surcharge on its undistributed retained earnings since 2002 under the Integrated Income Tax System. If there is any tax effect due to the adoption of the foregoing Integrated Income Tax System, parent company can proportionately allocate the effects on tax expense (benefit), other receivables and other payable among the Company and its parent company.

Effective from 1 January 2006, the Company has adopted “Income Basic Tax Act” and “Enforcement Rules of the Income Basic Tax Act” to estimate income basic tax.

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5. Significant accounting judgments, estimates and assumptions

The preparation of the Consolidated Company's consolidated financial statements require management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. However, uncertainty about these assumption and estimate could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.

(1) Judgments

In the process of applying the Company's accounting policies, management has made the following judgments, which have the most significant effect on the amounts recognized in the consolidated financial statements:

A. The significant degree of risk transform measured by the risk ratio of insurance policy

The risk ratio of insurance policy=(amount to insurance company's payment when insurance accident occur/amount to insurance company's payment when insurance accident do not occur-1)×100%

The insurance policies which meet one of the following conditions are defined as insurance contracts:

- (a) The insurance period is greater than or equal to 5 years, and at least 5 more policy year meet insurance risk ratio is greater than 10% (or 5%);
- (b) The insurance period is less than 5 years, and more than half of the policy year meet insurance risk ratio is greater than 10% (or 5%).

According to the calculation formula of insurance risk ratio, insurance policies often obviously satisfy the conditions of significant risk transform. Therefore insurers do not have to calculate the risk ratio and can define property insurance policy as insurance contracts.

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B. The significant degree of risk transform measured by the risk ratio of re-insurance policy

The risk ratio of re-insurance policy = $(\sum \text{PV amount to assumed re-insurer occur net loss} \times \text{the ratio of occurrence} / \text{PV of premium that assumed re-insurer expected}) \times 100\%$

When risk ratio of re-insurance policy that greater than 1%, the policies can be defined as re-insurance contracts.

(2) Estimates and assumptions

A. Post-employment benefit

The cost of post-employment benefit and the present value of the pension obligation under defined benefit pension plans are determined using actuarial valuations. An actuarial valuation involves making various assumptions. These include the determination of the discount rate, future salary increases, mortality rates and future pension increases.

Please refer to Note 6, for more detail on the assumptions to measure pension costs and defined benefit obligation.

B. Insurance contract liabilities (Including a discretionary participation feature investment contract liabilities)

Insurance contract liabilities are based on assumptions of current period or the assumptions established in contract to reflect the best estimate at that time. All contracts were through liability adequacy tests do holistic assessment and assumptions to reflect the current period best estimate of cash flows in the future. The main assumptions are expected ultimate loss ratio, the maintaining cost ratio, persistency rates, discount ratio and reimbursement ratio.

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C. Income taxes

Uncertainties exist with respect to the interpretation of complex tax regulations and the amount and timing of future taxable income. Given the wide range of international business relationships and the long-term nature and complexity of existing contractual agreements, differences arising between the actual results and the assumptions made, or future changes to such assumptions, could necessitate future adjustments to tax income and expense already recorded. The Group establishes provisions, based on reasonable estimates, for possible consequences of audits by the tax authorities of the respective countries in which it operates. The amount of such provisions is based on various factors, such as experience of previous tax audits and differing interpretations of tax regulations by the taxable entity and the responsible tax authority. Such differences of interpretation may arise on a wide variety of issues depending on the conditions prevailing in the respective Consolidated Company's domicile.

Deferred tax assets are recognized for all carry forward of unused tax losses and unused tax credits and deductible temporary differences to the extent that it is probable that taxable profit will be available or there are sufficient taxable temporary differences against which the unused tax losses, unused tax credits or deductible temporary differences can be utilized. The amount of deferred tax assets determined to be recognized is based upon the likely timing and the level of future taxable profits and taxable temporary differences together with future tax planning strategies. Please refer to Note 6, for more detail on the unrecognized deferred tax assets.

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6. Contents of significant accounts

(1) Cash and cash equivalents

Item	2013.12.31	
	NT\$	US\$
Petty cash and cash on hand	\$8,951	\$300
Cash in banks	2,041,944	68,453
Time deposits	4,892,070	163,998
Cash equivalents	1,251,807	41,965
Total	<u>\$8,194,772</u>	<u>\$274,716</u>

Item	2012.12.31	
	NT\$	US\$
Petty cash and cash on hand	\$7,792	\$268
Cash in banks	1,555,534	53,547
Time deposits	3,968,185	136,598
Cash equivalents	145,540	5,010
Total	<u>\$5,677,051</u>	<u>\$195,423</u>

Item	2012.1.1	
	NT\$	US\$
Petty cash and cash on hand	\$7,040	\$233
Cash in banks	1,444,523	47,721
Time deposits	4,933,846	162,994
Cash equivalents	540,658	17,861
Total	<u>\$6,926,067</u>	<u>\$228,809</u>

(2) Receivables

Item	2013.12.31	
	NT\$	US\$
Notes receivable	\$287,463	\$9,637
Premiums receivable	2,871,655	96,267
Other receivable	566,395	18,987
Total	<u>\$3,725,513</u>	<u>\$124,891</u>

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Item	2012.12.31	
	NT\$	US\$
Notes receivable	\$277,728	\$9,560
Premiums receivable	2,869,353	98,773
Other receivable	144,530	4,975
Total	<u>\$3,291,611</u>	<u>\$113,308</u>

Item	2012.1.1	
	NT\$	US\$
Notes receivable	\$254,593	\$8,411
Premiums receivable	2,541,899	83,974
Other receivable	112,904	3,730
Total	<u>\$2,909,396</u>	<u>\$96,115</u>

(3) Financial assets at fair value through profit or loss

Item	2013.12.31	
	NT\$	US\$
Beneficiary certificates	\$1,312,025	\$43,983
Derivative financial instruments	-	-
Total	<u>\$1,312,025</u>	<u>\$43,983</u>

Item	2012.12.31	
	NT\$	US\$
Beneficiary certificates	\$376,694	\$12,967
Derivative financial instruments	60,579	2,086
Total	<u>\$437,273</u>	<u>\$15,053</u>

Item	2012.1.1	
	NT\$	US\$
Beneficiary certificates	\$619,455	\$20,464
Derivative financial instruments	-	-
Total	<u>\$619,455</u>	<u>\$20,464</u>

Financial assets held for trading were not pledged.

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(4) Available-for-sale financial assets

Item	2013.12.31	
	NT\$	US\$
Listed stocks	\$2,285,699	\$76,624
Beneficiary certificates	1,478,818	49,575
Corporate bonds	1,091,843	36,602
Financial debentures	1,207,363	40,475
Government bonds	762,639	25,566
Overseas bonds	408,540	13,696
Total	<u>\$7,234,902</u>	<u>\$242,538</u>

Item	2012.12.31	
	NT\$	US\$
Listed stocks	\$1,423,602	\$49,005
Overseas stocks	83,307	2,868
Beneficiary certificates	2,895,043	99,657
Corporate bonds	1,178,127	40,555
Real Estate Investment Trust	393,138	13,533
Financial debentures	1,203,348	41,423
Government bonds	813,488	28,003
Overseas bonds	414,439	14,267
Total	<u>\$8,404,492</u>	<u>\$289,311</u>

Item	2012.1.1	
	NT\$	US\$
Listed stocks	\$1,594,312	\$52,670
Overseas stocks	25,163	831
Beneficiary certificates	880,895	29,101
Corporate bonds	1,249,973	41,294
Real Estate Investment Trust	483,916	15,987
Financial debentures	900,138	29,737
Government bonds	763,221	25,214
Total	<u>\$5,897,618</u>	<u>\$194,834</u>

Available-for-sale financial assets were not pledged.

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(5) Bond investments with no active market

Item	2013.12.31	
	NT\$	US\$
Preferred stocks	\$400,000	\$13,409
Company bonds	450,000	15,086
Overseas bonds	1,047,332	35,110
Time deposits	156,408	5,243
Total	<u>\$2,053,740</u>	<u>\$68,848</u>

Item	2012.12.31	
	NT\$	US\$
Preferred stocks	\$400,000	\$13,769
Company bonds	500,000	17,212
Overseas bonds	272,459	9,379
Time deposits	150,811	5,192
Total	<u>\$1,323,270</u>	<u>\$45,552</u>

Item	2012.1.1	
	NT\$	US\$
Preferred stocks	\$400,000	\$13,214
Company bonds	500,000	16,518
Overseas bonds	220,809	7,295
Time deposits	72,188	2,385
Total	<u>\$1,192,997</u>	<u>\$39,412</u>

Bond investments for which no active market were not pledged.

(6) Held-to-maturity financial assets

Item	2013.12.31	
	NT\$	US\$
Overseas bonds	<u>\$1,955,937</u>	<u>\$65,570</u>

Item	2012.12.31	
	NT\$	US\$
Overseas bonds	<u>\$2,512,011</u>	<u>\$86,472</u>

Item	2012.1.1	
	NT\$	US\$
Overseas bonds	<u>\$2,408,714</u>	<u>\$79,574</u>

Held-to-maturity financial assets were not pledged.

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(7) Secured loans

Item	2013.12.31	
	NT\$	US\$
Secured loans	\$505,145	\$16,934
Less: Allowance for bad debts	(82,624)	(2,770)
Net	<u>\$422,521</u>	<u>\$14,164</u>

Item	2012.12.31	
	NT\$	US\$
Secured loans	\$595,243	\$20,490
Less: Allowance for bad debts	(73,163)	(2,518)
Net	<u>\$522,080</u>	<u>\$17,972</u>

Item	2012.1.1	
	NT\$	US\$
Secured loans	\$569,737	\$18,822
Less: Allowance for bad debts	(17,772)	(587)
Net	<u>\$551,965</u>	<u>\$18,235</u>

(8) Reinsurance contracts assets

Item	NT\$		
	2013.12.31	2012.12.31	2012.1.1
Claims recoverable from reinsurers	\$332,711	\$513,592	\$268,251
Due from reinsurers and ceding companies	561,540	444,688	497,874
Reinsurance Reserve Assets			
Ceded unearned premiums reserve	2,495,090	2,547,036	2,254,873
Ceded claims reserve	1,663,767	2,014,316	2,175,269
Ceded premiums deficiency reserve	4,118	(5,055)	6,136
Subtotal	<u>4,162,975</u>	<u>4,556,297</u>	<u>4,436,278</u>
Total	<u>\$5,057,226</u>	<u>\$5,514,577</u>	<u>\$5,202,403</u>

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Item	US\$		
	2013.12.31	2012.12.31	2012.1.1
Claims recoverable from reinsurers	\$11,153	\$17,680	\$8,862
Due from reinsurers and ceding companies	18,825	15,308	16,448
Reinsurance Reserve Assets			
Ceded unearned premiums reserve	83,644	87,678	74,492
Ceded claims reserve	55,775	69,339	71,862
Ceded premiums deficiency reserve	138	(174)	203
Subtotal	139,577	156,843	146,557
Total	\$169,535	\$189,831	\$171,867

(9) Payables

Item	2013.12.31	
	NT\$	US\$
Claims outstanding	\$13,677	\$459
Commissions payable	148,296	4,971
Due to reinsurers and ceding companies	1,363,246	45,701
Other payables	1,097,319	36,786
Total	\$2,622,538	\$87,917

Item	2012.12.31	
	NT\$	US\$
Claims outstanding	\$21,009	\$723
Commissions payable	112,371	3,868
Due to reinsurers and ceding companies	1,205,101	41,484
Other payables	884,524	30,448
Total	\$2,223,005	\$76,523

Item	2012.1.1	
	NT\$	US\$
Claims outstanding	\$16,970	\$561
Commissions payable	135,923	4,490
Due to reinsurers and ceding companies	1,261,437	41,673
Other payables	686,932	22,693
Total	\$2,101,262	\$69,417

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(10) Preferred stock liability

In accordance with the resolution of the Board of Directors' meeting on 7 October 2011, the Company issued 31,250 thousands shares of Class A preferred stocks at par value of NT\$10 per share through private offerings. The offering was approved by Insurance Bureau of Financial Supervisory Commission, Executive Yuan ("Insurance Bureau") on 26 October 2011.

Primary terms and conditions of the privately offered Class A preferred stocks are listed as follows:

A. Issuance period covers from 11 November 2011, the issue date, to 11 November 2018, seven years in total.

B. Dividend yield is 1.86 % per year based on the actual issue price of NT\$32 per share. Unpaid dividends will accumulate and shall be paid in full with priority in the year with earnings.

C. The preference shares are not convertible to common stocks. When the shares are mature, the Company shall repurchase the shares at the issue price in compliance with R.O.C. Company Law. If the company is not able to repurchase all or a portion of the issued preferred stocks due to force majeure, the terms of the preferred stocks remain the same until the Company repurchases all outstanding shares. Dividends will be calculated at the original rate based on the actual extended period. Preferred shareholders' rights shall not be violated.

D. Preferred shareholders do not have rights to require the Company to redeem the shares. Five years after issuance, the Company can redeem the shares with the approval from the governing authorities.

According to the IAS 32 "Financial Instruments: Presentation", the above mentioned preferred stocks issued shall be categorized as a financial liability. Thus, the preferred stocks were reported as "preferred stock liabilities" under financial liabilities.

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(11) Insurance liabilities

Item	2013.12.31	
	NT\$	US\$
Unearned premiums reserve	\$11,213,469	\$375,912
Claims reserve	6,041,523	202,532
Special reserve	4,354,992	145,994
Premiums deficiency reserve	243,606	8,166
Total	<u>\$21,853,590</u>	<u>\$732,604</u>

Item	2012.12.31	
	NT\$	US\$
Unearned premiums reserve	\$10,100,374	\$347,689
Claims reserve	5,807,437	199,912
Special reserve	4,455,638	153,378
Premiums deficiency reserve	77,149	2,656
Total	<u>\$20,440,598</u>	<u>\$703,635</u>

Item	2012.1.1	
	NT\$	US\$
Unearned premiums reserve	\$8,925,059	\$294,848
Claims reserve	5,364,787	177,231
Special reserve	4,761,102	157,288
Premiums deficiency reserve	25,025	827
Total	<u>\$19,075,973</u>	<u>\$630,194</u>

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A. Unearned premiums reserve

(a) Unearned premium reserve and ceded unearned premium reserve are summarized as follows :

Item	2013.12.31							
	Unearned premium reserve				Ceded unearned premium reserve			
	Direct business		Assumed reinsurance business		Ceded reinsurance business		Retained business	
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$
Fire insurance	\$2,026,423	\$67,932	\$54,083	\$1,813	\$964,076	\$32,319	\$1,116,430	\$37,426
Marine insurance	139,775	4,686	14,955	501	104,044	3,488	50,686	1,699
Land and air insurance	3,590,802	120,375	8,625	289	178,898	5,997	3,420,529	114,667
Liability insurance	538,568	18,055	597	20	166,651	5,587	372,514	12,488
Bonding insurance	35,730	1,197	722	24	18,958	635	17,494	586
Other property insurance	1,477,530	49,532	30,213	1,013	475,846	15,952	1,031,897	34,593
Accident insurance	1,510,910	50,651	2,591	87	71,337	2,392	1,442,164	48,346
Health insurance	48,879	1,639	-	-	156	5	48,723	1,634
Compulsory automobile liability insurance	1,544,803	51,787	188,263	6,311	515,124	17,269	1,217,942	40,829
Total	\$10,913,420	\$365,854	\$300,049	\$10,058	\$2,495,090	\$83,644	\$8,718,379	\$292,268

Item	2012.12.31							
	Unearned premium reserve				Ceded unearned premium reserve			
	Direct business		Assumed reinsurance business		Ceded reinsurance business		Retained business	
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$
Fire insurance	\$2,100,879	\$72,319	\$56,882	\$1,958	\$916,559	\$31,551	\$1,241,202	\$42,726
Marine insurance	241,010	8,296	17,432	600	209,087	7,197	49,355	1,699
Land and air insurance	2,955,101	101,725	13,196	454	161,337	5,554	2,806,960	96,625
Liability insurance	514,215	17,701	173	6	171,208	5,894	343,180	11,813
Bonding insurance	26,491	912	537	18	9,156	315	17,872	615
Other property insurance	1,152,073	39,658	15,942	549	514,617	17,715	653,398	22,492
Accident insurance	1,529,451	52,649	3,976	137	84,690	2,915	1,448,737	49,871
Health insurance	88,102	3,033	-	-	1,154	40	86,948	2,993
Compulsory automobile liability insurance	1,198,010	41,240	186,904	6,434	479,228	16,497	905,686	31,177
Total	\$9,805,332	\$337,533	\$295,042	\$10,156	\$2,547,036	\$87,678	\$7,553,338	\$260,011

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Item	Unearned premium reserve				Ceded unearned premium reserve			
	Direct business		Assumed reinsurance business		Ceded reinsurance business		Retained business	
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$
Fire insurance	\$1,800,538	\$59,483	\$40,517	\$1,338	\$729,560	\$24,102	\$1,111,495	\$36,719
Marine insurance	257,526	8,508	1,423	47	218,534	7,219	40,415	1,336
Land and air insurance	2,474,556	81,749	5,322	176	149,756	4,947	2,330,122	76,978
Liability insurance	397,266	13,124	119	4	118,700	3,921	278,685	9,207
Bonding insurance	24,722	817	397	13	6,733	223	18,386	607
Other property insurance	894,846	29,562	15,099	499	496,357	16,398	413,588	13,663
Accident insurance	1,510,001	49,884	25,875	855	73,958	2,443	1,461,918	48,296
Health insurance	147,642	4,877	-	-	2,417	80	145,225	4,797
Compulsory automobile liability insurance	1,147,140	37,897	182,070	6,015	458,858	15,159	870,352	28,753
Total	\$8,654,237	\$285,901	\$270,822	\$8,947	\$2,254,873	\$74,492	\$6,670,186	\$220,356

(b) Reconciliation statement of unearned premium reserve and ceded unearned premium reserve

2013.12.31

Item	Unearned premium reserve		Ceded unearned premium reserve	
	NT\$	US\$	NT\$	US\$
Beginning balance	\$10,100,374	\$338,598	\$2,547,036	\$85,385
Reserve	11,172,233	374,530	2,483,170	83,244
Recover	(10,104,776)	(338,745)	(2,539,928)	(85,146)
Effects of exchange rate changes	45,638	1,529	4,812	161
Ending balance	\$11,213,469	\$375,912	\$2,495,090	\$83,644

2012.12.31

Item	Unearned premium reserve		Ceded unearned premium reserve	
	NT\$	US\$	NT\$	US\$
Beginning balance	\$8,925,059	\$307,231	\$2,254,873	\$77,621
Reserve	10,103,403	347,794	2,547,943	87,709
Recover	(8,917,903)	(306,985)	(2,252,464)	(77,538)
Effects of exchange rate changes	(10,185)	(351)	(3,316)	(114)
Ending balance	\$10,100,374	\$347,689	\$2,547,036	\$87,678

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Notes to consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

B. Claims reserve

(a) Claims reserve and ceded claims reserve

2013.12.31								
Item	Claims reserve				Ceded claims reserve			
	Direct business		Assumed reinsurance business		Ceded reinsurance business		Retained business	
	(1)		(2)		(3)		(4)=(1)+(2)-(3)	
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$
Claims reported but not paid off	\$3,886,032	\$130,273	\$307,234	\$10,299	\$1,350,564	\$45,275	\$2,842,702	\$95,297
Unreported claims	1,789,128	59,977	59,129	1,983	313,203	10,500	1,535,054	51,460
Total	<u>\$5,675,160</u>	<u>\$190,250</u>	<u>\$366,363</u>	<u>\$12,282</u>	<u>\$1,663,767</u>	<u>\$55,775</u>	<u>\$4,377,756</u>	<u>\$146,757</u>

2012.12.31								
Item	Claims reserve				Ceded claims reserve			
	Direct business		Assumed reinsurance business		Ceded reinsurance business		Retained business	
	(1)		(2)		(3)		(4)=(1)+(2)-(3)	
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$
Claims reported but not paid off	\$4,111,890	\$141,546	\$293,676	\$10,109	\$1,723,922	\$59,343	\$2,681,644	\$92,312
Unreported claims	1,362,292	46,894	39,579	1,363	290,394	9,996	1,111,477	38,261
Total	<u>\$5,474,182</u>	<u>\$188,440</u>	<u>\$333,255</u>	<u>\$11,472</u>	<u>\$2,014,316</u>	<u>\$69,339</u>	<u>\$3,793,121</u>	<u>\$130,573</u>

2012.1.1								
Item	Claims reserve				Ceded claims reserve			
	Direct business		Assumed reinsurance business		Ceded reinsurance business		Retained business	
	(1)		(2)		(3)		(4)=(1)+(2)-(3)	
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$
Claims reported but not paid off	\$4,061,939	\$134,190	\$196,679	\$6,498	\$1,896,762	\$62,661	\$2,361,856	\$78,027
Unreported claims	1,058,601	34,972	47,568	1,571	278,507	9,201	827,662	27,342
Total	<u>\$5,120,540</u>	<u>\$169,162</u>	<u>\$244,247</u>	<u>\$8,069</u>	<u>\$2,175,269</u>	<u>\$71,862</u>	<u>\$3,189,518</u>	<u>\$105,369</u>

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Cathay Century Insurance Co., Ltd. and Subsidiaries

Notes to consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

(b) Net changes for claims reserve and ceded claims reserve

For the year ended 31 December 2013								
NT\$								
Item	Direct underwriting business		Assumed reinsurance business		Net change for claim reserve (5)=(1)-(2) +(3)-(4)	Ceded reinsurance business		Net change for ceded claims reserve (8)=(6)-(7)
	Reserve (1)	Recover (2)	Reserve (3)	Recover (4)		Reserve (6)	Recover (7)	
Claims reported but not paid off	\$3,865,122	\$4,125,832	\$307,234	\$293,677	\$(247,153)	\$1,346,448	\$1,728,657	\$(382,209)
Unreported claims	1,778,041	1,370,391	58,901	39,583	426,968	310,964	292,295	18,669
Total	\$5,643,163	\$5,496,223	\$366,135	\$333,260	\$179,815	\$1,657,412	\$2,020,952	\$(363,540)

For the year ended 31 December 2013								
US\$								
Item	Direct underwriting business		Assumed reinsurance business		Net change for claims reserve (5)=(1)-(2) +(3)-(4)	Ceded reinsurance business		Net change for ceded claims reserve (8)=(6)-(7)
	Reserve (1)	Recover (2)	Reserve (3)	Recover (4)		Reserve (6)	Recover (7)	
Claims reported but not paid off	\$129,572	\$138,311	\$10,299	\$9,845	\$(8,285)	\$45,137	\$57,950	\$(12,813)
Unreported claims	59,606	45,941	1,975	1,327	14,313	10,425	9,799	626
Total	\$189,178	\$184,252	\$12,274	\$11,172	\$6,028	\$55,562	\$67,749	\$(12,187)

For the year ended 31 December 2012								
NT\$								
Item	Direct underwriting business		Assumed reinsurance business		Net change for claims reserve (5)=(1)-(2) +(3)-(4)	Ceded reinsurance business		Net change for ceded claims reserve (8)=(6)-(7)
	Reserve (1)	Recover (2)	Reserve (3)	Recover (4)		Reserve (6)	Recover (7)	
Claims reported but not paid off	\$4,114,351	\$4,057,820	\$293,676	\$196,679	\$153,528	\$1,724,852	\$1,895,417	\$(170,565)
Unreported claims	1,363,648	1,054,855	39,580	47,492	300,881	290,744	276,662	14,082
Total	\$5,477,999	\$5,112,675	\$333,256	\$244,171	\$454,409	\$2,015,596	\$2,172,079	\$(156,483)

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(Expressed in thousands of dollars unless otherwise stated)

For the year ended 31 December 2012

Item	US\$							
	Direct underwriting business		Assumed reinsurance business		Net change for claims reserve (5)=(1)-(2) +(3)-(4)	Ceded reinsurance business		Net change for ceded claims reserve (8)=(6)-(7)
	Reserve	Recover	Reserve	Recover		Reserve	Recover	
	(1)	(2)	(3)	(4)	(6)	(7)	(8)	
Claims reported but not paid off	\$141,630	\$139,684	\$10,109	\$6,770	\$5,285	\$59,375	\$65,247	\$(5,872)
Unreported claims	46,941	36,312	1,363	1,635	10,357	10,008	9,523	485
Total	\$188,571	\$175,996	\$11,472	\$8,405	\$15,642	\$69,383	\$74,770	\$(5,387)

(c) Reported claims but not yet paid off or unreported claims liabilities for policyholder

Item	2013.12.31					
	Claims reserve					
	Claim reported but not paid off		Unreported claims		Total	
	NT\$	US\$	NT\$	US\$	NT\$	US\$
Fire insurance	\$859,480	\$28,813	\$134,727	\$4,516	\$994,207	\$33,329
Marine insurance	621,182	20,824	176,133	5,905	797,315	26,729
Land and air insurance	820,143	27,494	620,039	20,786	1,440,182	48,280
Liability insurance	259,018	8,683	281,177	9,426	540,195	18,109
Bonding insurance	19,789	663	1,837	62	21,626	725
Other property insurance	654,657	21,946	189,141	6,341	843,798	28,287
Accident insurance	67,805	2,273	350,047	11,735	417,852	14,008
Health insurance	6,149	206	44,518	1,492	50,667	1,698
Compulsory automobile liability insurance	885,043	29,670	50,638	1,697	935,681	31,367
Total	\$4,193,266	\$140,572	\$1,848,257	\$61,960	\$6,041,523	\$202,532

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Cathay Century Insurance Co., Ltd. and Subsidiaries

Notes to consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

2012.12.31						
Claims reserve						
Item	Claim reported but not paid off		Unreported claims		Total	
	NT\$	US\$	NT\$	US\$	NT\$	US\$
Fire insurance	\$1,338,560	\$46,078	\$19,362	\$666	\$1,357,922	\$46,744
Marine insurance	794,556	27,351	159,313	5,484	953,869	32,835
Land and air insurance	690,396	23,766	491,381	16,915	1,181,777	40,681
Liability insurance	249,023	8,572	226,183	7,786	475,206	16,358
Bonding insurance	19,834	683	14,294	492	34,128	1,175
Other property insurance	487,486	16,781	145,645	5,014	633,131	21,795
Accident insurance	68,515	2,358	284,938	9,809	353,453	12,167
Health insurance	6,816	235	39,229	1,350	46,045	1,585
Compulsory automobile liability insurance	750,380	25,831	21,526	741	771,906	26,572
Total	<u>\$4,405,566</u>	<u>\$151,655</u>	<u>\$1,401,871</u>	<u>\$48,257</u>	<u>\$5,807,437</u>	<u>\$199,912</u>

2012.1.1						
Claims reserve						
Item	Claim reported but not paid off		Unreported claims		Total	
	NT\$	US\$	NT\$	US\$	NT\$	US\$
Fire insurance	\$2,055,544	\$67,907	\$162,754	\$5,377	\$2,218,298	\$73,284
Marine insurance	614,939	20,315	189,501	6,260	804,440	26,575
Land and air insurance	506,703	16,739	456,465	15,080	963,168	31,819
Liability insurance	234,807	7,757	53,728	1,775	288,535	9,532
Bonding insurance	23,232	768	4,660	154	27,892	922
Other property insurance	297,847	9,840	55,435	1,831	353,282	11,671
Accident insurance	128,888	4,258	160,770	5,311	289,658	9,569
Health insurance	9,821	324	2,213	73	12,034	397
Compulsory automobile liability insurance	386,837	12,780	20,643	682	407,480	13,462
Total	<u>\$4,258,618</u>	<u>\$140,688</u>	<u>\$1,106,169</u>	<u>\$36,543</u>	<u>\$5,364,787</u>	<u>\$177,231</u>

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Notes to consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

(d) Reinsurance asset- ceded claims reserve for policyholder

Item	2013.12.31					
	Ceded claims reserve					
	Claim reported but not paid off		Unreported claims		Total	
	NT\$	US\$	NT\$	US\$	NT\$	US\$
Fire insurance	\$286,597	\$9,608	\$32,707	\$1,097	\$319,304	\$10,705
Marine insurance	439,425	14,731	121,983	4,089	561,408	18,820
Land and air insurance	61,353	2,057	17,045	571	78,398	2,628
Liability insurance	71,041	2,381	89,780	3,010	160,821	5,391
Bonding insurance	18,180	609	695	24	18,875	633
Other property insurance	181,717	6,092	13,811	463	195,528	6,555
Accident insurance	5,034	169	28,494	955	33,528	1,124
Health insurance	-	-	692	23	692	23
Compulsory automobile liability insurance	287,217	9,628	7,996	268	295,213	9,896
Total	\$1,350,564	\$45,275	\$313,203	\$10,500	\$1,663,767	\$55,775

Item	2012.12.31					
	Ceded claims reserve					
	Claim reported but not paid off		Unreported claims		Total	
	NT\$	US\$	NT\$	US\$	NT\$	US\$
Fire insurance	\$556,200	\$19,146	\$3,430	\$118	\$559,630	\$19,264
Marine insurance	614,236	21,144	133,937	4,610	748,173	25,754
Land and air insurance	42,156	1,451	11,765	405	53,921	1,856
Liability insurance	68,341	2,353	76,629	2,638	144,970	4,991
Bonding insurance	18,225	627	5,719	197	23,944	824
Other property insurance	152,278	5,242	18,356	632	170,634	5,874
Accident insurance	6,829	235	31,650	1,089	38,479	1,324
Health insurance	75	3	1,398	48	1,473	51
Compulsory automobile liability insurance	265,582	9,142	7,510	259	273,092	9,401
Total	\$1,723,922	\$59,343	\$290,394	\$9,996	\$2,014,316	\$69,339

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Notes to consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

Item	2012.1.1					
	Ceded claims reserve					
	Claim reported but not paid off		Unreported claims		Total	
	NT\$	US\$	NT\$	US\$	NT\$	US\$
Fire insurance	\$1,075,347	\$35,525	\$73,921	\$2,442	\$1,149,268	\$37,967
Marine insurance	423,306	13,984	152,655	5,043	575,961	19,027
Land and air insurance	22,205	734	1,412	47	23,617	781
Liability insurance	90,756	2,998	13,225	437	103,981	3,435
Bonding insurance	19,442	642	709	23	20,151	665
Other property insurance	122,459	4,046	10,709	354	133,168	4,400
Accident insurance	14,532	480	18,570	614	33,102	1,094
Health insurance	-	-	132	4	132	4
Compulsory automobile liability insurance	128,715	4,252	7,174	237	135,889	4,489
Total	\$1,896,762	\$62,661	\$278,507	\$9,201	\$2,175,269	\$71,862

(e) Reconciliation statement of claims reserve and ceded claims reserve

Item	For the year ended 31 December 2013			
	Claims reserve		Ceded claims reserve	
	NT\$	US\$	NT\$	US\$
Beginning balance	\$5,807,437	\$194,685	\$2,014,316	\$67,527
Reserve	6,009,298	201,452	1,657,412	55,562
Recover	(5,829,483)	(195,424)	(2,020,952)	(67,749)
Effects of exchange rate changes	54,271	1,819	12,991	435
Ending balance	<u>\$6,041,523</u>	<u>\$202,532</u>	<u>\$1,663,767</u>	<u>\$55,775</u>

Item	For the year ended 31 December 2012			
	Claims reserve		Ceded claims reserve	
	NT\$	US\$	NT\$	US\$
Beginning balance	\$5,364,787	\$184,674	\$2,175,269	\$74,880
Reserve	5,811,255	200,043	2,015,596	69,383
Recover	(5,356,846)	(184,401)	(2,172,079)	(74,770)
Effects of exchange rate changes	(11,759)	(404)	(4,470)	(154)
Ending balance	<u>\$5,807,437</u>	<u>\$199,912</u>	<u>\$2,014,316</u>	<u>\$69,339</u>

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(Expressed in thousands of dollars unless otherwise stated)

C. Special reserve

(a) Special reserve - Compulsory automobile liability insurance

Item	For the year ended 31 December 2013	
	NT\$	US\$
Beginning balance	\$2,307,591	\$77,358
Reserve	260,936	8,748
Recover	(342,855)	(11,494)
Ending balance	<u>\$2,225,672</u>	<u>\$74,612</u>

Item	For the year ended 31 December 2012	
	NT\$	US\$
Beginning balance	\$2,434,891	\$83,817
Reserve	199,736	6,876
Recover	(327,036)	(11,258)
Ending balance	<u>\$2,307,591</u>	<u>\$79,435</u>

(b) Special reserve - Non-compulsory automobile liability insurance

Item	For the year ended 31 December 2013					
	Liability					
	Major incidents		Fluctuation of risks		Total	
	NT\$	US\$	NT\$	US\$	NT\$	US\$
Beginning balance	\$1,113,068	\$37,314	\$1,034,979	\$34,696	\$2,148,047	\$72,010
Reserve	-	-	-	-	-	-
Recover	(18,727)	(628)	-	-	(18,727)	(628)
Ending balance	<u>\$1,094,341</u>	<u>\$36,686</u>	<u>\$1,034,979</u>	<u>\$34,696</u>	<u>\$2,129,320</u>	<u>\$71,382</u>

Item	For the year ended 31 December 2012					
	Liability					
	Major incidents		Fluctuation of risks		Total	
	NT\$	US\$	NT\$	US\$	NT\$	US\$
Beginning balance	\$1,172,396	\$40,358	\$1,153,815	\$39,718	\$2,326,211	\$80,076
Reserve	-	-	-	-	-	-
Recover	(59,328)	(2,042)	(118,836)	(4,091)	(178,164)	(6,133)
Ending balance	<u>\$1,113,068</u>	<u>\$38,316</u>	<u>\$1,034,979</u>	<u>\$35,627</u>	<u>\$2,148,047</u>	<u>\$73,943</u>

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Not applicable to “Precautions of strengthening disaster insurance of property insurance industry (commercial earthquake and typhoons flood insurance)”, “Enforcement Rules for the Risk Spreading Mechanism of Residential Earthquake Insurance”, “Regulations for the Management of the Various Reserves for the nuclear Insurance”, and other reserve are not material impact on the Company's profit and earnings per share. The special reserve under liabilities decrease NT\$18,727 (US\$628) thousands, special earnings capital reserve under equity are increase NT\$115,760 (US\$3,881) thousands.

D. Premiums deficiency reserve

(a) Premiums deficiency reserve and ceded premium deficiency reserve

Item	2013.12.31							
	Premiums deficiency reserve				Ceded premiums deficiency reserve		Retained business	
	Direct business		Assumed reinsurance business		Ceded reinsurance business			
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$
Fire insurance	\$4,237	\$142	\$92	\$3	\$-	\$-	\$4,329	\$145
Marine insurance	160	5	2	-	(8,736)	(293)	8,898	298
Land and air insurance	-	-	377	12	(329)	(11)	706	23
Liability insurance	27,518	923	12	-	3,485	117	24,045	806
Bonding insurance	10,288	345	-	-	9,698	325	590	20
Other property insurance	161,090	5,400	424	15	-	-	161,514	5,415
Accident insurance	-	-	97	3	-	-	97	3
Health insurance	-	-	-	-	-	-	-	-
Compulsory automobile liability insurance	39,309	1,318	-	-	-	-	39,309	1,318
Total	\$242,602	\$8,133	\$1,004	\$33	\$4,118	\$138	\$239,488	\$8,028

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2012.12.31								
Item	Premiums deficiency reserve				Ceded premiums deficiency reserve		Retained business	
	Direct business		Assumed reinsurance business		Ceded reinsurance business		NT\$	US\$
	NT\$	US\$	NT\$	US\$	NT\$	US\$		
Fire insurance	\$6,198	\$213	\$23	\$1	\$-	\$-	\$6,221	\$214
Marine insurance	9,322	321	726	25	(7,185)	(247)	17,233	593
Land and air insurance	-	-	9,319	321	-	-	9,319	321
Liability insurance	13,059	450	10	-	-	-	13,069	450
Bonding insurance	2,204	76	-	-	2,096	72	108	4
Other property insurance	35,659	1,227	435	15	34	1	36,060	1,241
Accident insurance	-	-	194	7	-	-	194	7
Health insurance	-	-	-	-	-	-	-	-
Total	<u>\$66,442</u>	<u>\$2,287</u>	<u>\$10,707</u>	<u>\$369</u>	<u>\$(5,055)</u>	<u>\$(174)</u>	<u>\$82,204</u>	<u>\$2,830</u>

2012.1.1								
Item	Premiums deficiency reserve				Ceded premiums deficiency reserve		Retained business	
	Direct business		Assumed reinsurance business		Ceded reinsurance business		NT\$	US\$
	NT\$	US\$	NT\$	US\$	NT\$	US\$		
Fire insurance	\$-	\$-	\$432	\$14	\$(5,485)	\$(181)	\$5,917	\$195
Marine insurance	9,806	324	54	2	1,867	62	7,993	264
Land and air insurance	-	-	2	-	(1,480)	(49)	1,482	49
Liability insurance	-	-	49	2	49	2	-	-
Bonding insurance	11,295	373	6	-	11,185	369	116	4
Other property insurance	3,316	110	54	2	-	-	3,370	112
Accident insurance	-	-	11	-	-	-	11	-
Health insurance	-	-	-	-	-	-	-	-
Total	<u>\$24,417</u>	<u>\$807</u>	<u>\$608</u>	<u>\$20</u>	<u>\$6,136</u>	<u>\$203</u>	<u>\$18,889</u>	<u>\$624</u>

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(b) Net loss recognized for premiums deficiency reserve- Net change for premium deficiency reserve and ceded premiums deficiency reserve

For the year ended 31 December 2013									
NT\$									
Item	Direct underwriting business		Assumed reinsurance business		Net change for premiums deficiency reserve (5)=(1)-(2)+(3)-(4)	Ceded reinsurance business		Net change for ceded premiums deficiency reserve (8)=(6)-(7)	Recognized net loss (gain) for premiums deficiency reserve (9)=(5)-(8)
	Reserve	Recover	Reserve	Recover		Reserve	Recover		
	(1)	(2)	(3)	(4)		(6)	(7)		
Fire insurance	\$4,117	\$6,352	\$89	\$24	\$(2,170)	\$-	\$-	\$-	\$(2,170)
Marine insurance	155	9,329	2	726	(9,898)	(8,737)	(7,182)	(1,555)	(8,343)
Land and air insurance	-	-	377	9,319	(8,942)	(329)	-	(329)	(8,613)
Liability insurance	26,743	13,433	11	10	13,311	3,387	-	3,387	9,924
Bonding insurance	10,285	2,207	-	-	8,078	9,698	2,096	7,602	476
Other property insurance	156,551	36,701	413	448	119,815	-	35	(35)	119,850
Accident insurance	-	-	95	200	(105)	-	-	-	(105)
Health insurance	-	-	-	-	-	-	-	-	-
Compulsory automobile liability insurance	38,201	-	-	-	38,201	-	-	-	38,201
Total	\$236,052	\$68,022	\$987	\$10,727	\$158,290	\$4,019	\$(5,051)	\$9,070	\$149,220

For the year ended 31 December 2013									
US\$									
Item	Direct underwriting business		Assumed reinsurance business		Net change for premiums deficiency reserve (5)=(1)-(2)+(3)-(4)	Ceded reinsurance business		Net change for ceded premiums deficiency reserve (8)=(6)-(7)	Recognized net loss (gain) for premiums deficiency reserve (9)=(5)-(8)
	Reserve	Recover	Reserve	Recover		Reserve	Recover		
	(1)	(2)	(3)	(4)		(6)	(7)		
Fire insurance	\$138	\$213	\$3	\$1	\$(73)	\$-	\$-	\$-	\$(73)
Marine insurance	5	313	-	24	(332)	(293)	(240)	(53)	(279)
Land and air insurance	-	-	13	313	(300)	(11)	-	(11)	(289)
Liability insurance	896	450	-	-	446	114	-	114	332
Bonding insurance	345	74	-	-	271	325	70	255	16
Other property insurance	5,248	1,230	14	15	4,017	-	1	(1)	4,018
Accident insurance	-	-	3	7	(4)	-	-	-	(4)
Health insurance	-	-	-	-	-	-	-	-	-
Compulsory automobile liability insurance	1,281	-	-	-	1,281	-	-	-	1,281
Total	\$7,913	\$2,280	\$33	\$360	\$5,306	\$135	\$(169)	\$304	\$5,002

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Notes to consolidated financial statements (continued)

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For the year ended 31 December 2012

Item	NT\$								
	Direct underwriting business		Assumed reinsurance business		Net change for premiums deficiency reserve	Ceded reinsurance business		Net change for ceded premiums deficiency reserve	Recognized net loss (gain) for premiums deficiency reserve
	Reserve	Recover	Reserve	Recover		Reserve	Recover		
	(1)	(2)	(3)	(4)	(5)=(1)-(2)+(3)-(4)	(6)	(7)	(8)=(6)-(7)	(9)=(5)-(8)
Fire insurance	\$6,226	\$-	\$24	\$432	\$5,818	\$-	\$(5,485)	\$5,485	\$333
Marine insurance	9,323	9,806	726	55	188	(7,184)	1,867	(9,051)	9,239
Land and air insurance	-	-	9,319	2	9,317	-	(1,480)	1,480	7,837
Liability insurance	13,118	-	10	49	13,079	-	49	(49)	13,128
Bonding insurance	2,204	11,292	-	6	(9,094)	2,096	11,185	(9,089)	(5)
Other property insurance	35,820	3,235	437	53	32,969	34	-	34	32,935
Accident insurance	-	-	195	11	184	-	-	-	184
Health insurance	-	-	-	-	-	-	-	-	-
Total	\$66,691	\$24,333	\$10,711	\$608	\$52,461	\$(5,054)	\$6,136	\$(11,190)	\$63,651

For the year ended 31 December 2012

Item	US\$								
	Direct underwriting business		Assumed reinsurance business		Net change for premiums deficiency reserve	Ceded reinsurance business		Net change for ceded premiums deficiency reserve	Recognized net loss (gain) for premiums deficiency reserve
	Reserve	Recover	Reserve	Recover		Reserve	Recover		
	(1)	(2)	(3)	(4)	(5)=(1)-(2)+(3)-(4)	(6)	(7)	(8)=(6)-(7)	(9)=(5)-(8)
Fire insurance	\$214	\$-	\$1	\$15	\$200	\$-	\$(189)	\$189	\$11
Marine insurance	321	338	25	2	6	(247)	64	(311)	317
Land and air insurance	-	-	321	-	321	-	(51)	51	270
Liability insurance	452	-	-	2	450	-	2	(2)	452
Bonding insurance	76	389	-	-	(313)	72	385	(313)	-
Other property insurance	1,233	111	15	2	1,135	1	-	1	1,134
Accident insurance	-	-	7	-	7	-	-	-	7
Health insurance	-	-	-	-	-	-	-	-	-
Total	\$2,296	\$838	\$369	\$21	\$1,806	\$(174)	\$211	\$(385)	\$2,191

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Cathay Century Insurance Co., Ltd. and Subsidiaries

Notes to consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

- (c) Reconciliation statement for premium deficiency reserve and ceded premium deficiency reserve

Item	For the year ended 31 December 2013			
	Premiums deficiency reserve		Ceded premiums deficiency reserve	
	NT\$	US\$	NT\$	US\$
Beginning balance	\$77,149	\$2,586	\$(5,055)	\$(169)
Reserve	237,039	7,946	4,019	135
Recover	(78,749)	(2,640)	5,051	169
Effects of exchange rate changes	8,167	274	103	3
Ending balance	<u>\$243,606</u>	<u>\$8,166</u>	<u>\$4,118</u>	<u>\$138</u>

Item	For the year ended 31 December 2012			
	Premiums deficiency reserve		Ceded premiums deficiency reserve	
	NT\$	US\$	NT\$	US\$
Beginning balance	\$25,025	\$862	\$6,136	\$211
Reserve	77,402	2,665	(5,054)	(174)
Recover	(24,941)	(859)	(6,136)	(211)
Effects of exchange rate changes	(337)	(12)	(1)	-
Ending balance	<u>\$77,149</u>	<u>\$2,656</u>	<u>\$(5,055)</u>	<u>\$(174)</u>

- (d) Effects for the change of estimation and assumption

Premium deficiency reserve is a measurement of present value for future expenditure. The expected final loss ratio was referred to the data in the past three years, spectacular compensation case and the trend of loss. The expected operation expense ratio was referred to the insurance expense statements in the past three years exclude entertainment expense and membership fee. The actual ratio of return on investment may not be the same as the expected ratio due to the uncertainty of estimation and assumption.

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Notes to consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

(12) Post-employment benefits

The Company and its domestic subsidiaries adopt a defined contribution plan in accordance with the Labor Pension Act of the R.O.C. Under the Labor Pension Act, the Company and its domestic subsidiaries will make monthly contributions of no less than 6% of the employees' monthly wages to the employees' individual pension accounts. The Company and its domestic subsidiaries have made monthly contributions of 6% of each individual employee's salaries or wages to employees' pension accounts.

Subsidiaries located in the People's Republic of China will contribute social welfare benefits based on a certain percentage of employees' salaries or wages to the employees' individual pension accounts.

Pension benefits for employees of overseas subsidiaries and branches are provided in accordance with the local regulations.

Expenses under the defined contribution plan for the years ended 31 December 2013 and 2012 are NT\$57,103 (US\$1,914) thousands and NT\$46,406 (US\$1,598) thousands, respectively.

Defined benefits plan

The Company adopts a defined benefit plan in accordance with the Labor Standards Act of the R.O.C. The pension benefits are disbursed based on the units of service years and the average salaries in the last month of the service year. Two units per year are awarded for the first 15 years of services while one unit per year is awarded after the completion of the 15th year. The total units shall not exceed 45 units. Under the Labor Standards Act, the Company contributes an amount equivalent to 2% of the employees' total salaries and wages on a monthly basis to the pension fund deposited at the Bank of Taiwan in the name of the administered pension fund committee.

Pension costs recognized in profit or loss for the years ended 31 December 2013 and 2012:

	For the year ended 31 December	
	2013 (NT\$)	2012 (NT\$)
Current period service costs	\$21,193	\$19,852
Interest cost	9,427	9,448
Expected return on plan assets	(5,460)	(5,370)
Total	<u>\$25,160</u>	<u>\$23,930</u>

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Notes to consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

	For the year ended 31 December	
	2013 (US\$)	2012 (US\$)
Current period service costs	\$711	\$683
Interest cost	316	325
Expected return on plan assets	(183)	(185)
Total	\$844	\$823

The benefit expense under the defined benefits plan recognized in the statement of comprehensive income:

	For the year ended 31 December	
	2013 (NT\$)	2012 (NT\$)
Operating costs	\$17,612	\$16,751
Administrative expenses	7,548	7,179
Total	\$25,160	\$23,930

	For the year ended 31 December	
	2013 (US\$)	2012 (US\$)
Operating costs	\$591	\$576
Administrative expenses	253	247
Total	\$844	\$823

Reconciliation of liability (asset) of the defined benefit plan is as follows:

	2013.12.31	
	NT\$	US\$
Defined benefit obligation	\$(706,615)	\$(23,688)
Plan assets at fair value	381,248	12,781
Funded status	(325,367)	(10,907)
Unrecognized pension cost	89,095	2,986
Accrued pension liabilities recognized on the balance sheets	\$(236,272)	\$(7,921)
	2012.12.31	
	NT\$	US\$
Defined benefit obligation	\$(625,367)	\$(21,528)
Plan assets at fair value	348,590	12,000
Funded status	(276,777)	(9,528)
Unrecognized pension cost	28,827	992
Accrued pension liabilities recognized on the balance sheets	\$(247,950)	\$(8,536)

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Notes to consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

	2012.1.1	
	NT\$	US\$
Defined benefit obligation	\$(572,462)	\$(18,912)
Plan assets at fair value	312,974	10,339
Funded status	(259,488)	(8,573)
Accrued pension liabilities recognized on the balance sheets	\$(259,488)	\$(8,573)

Changes in present value of the defined benefit obligation are as follows:

	For the year ended 31 December 2013	
	NT\$	US\$
Beginning defined benefit obligation	\$625,367	\$20,964
Current service cost	21,193	711
Interest cost	9,427	316
Benefits paid	(7,816)	(262)
Actuarial losses (gains)	58,444	1,959
Ending defined benefit obligation	\$706,615	\$23,688

	For the year ended 31 December 2012	
	NT\$	US\$
Beginning defined benefit obligation	\$572,462	\$19,707
Current service cost	19,852	683
Interest cost	9,448	325
Benefits paid	(3,864)	(133)
Actuarial losses (gains)	27,469	946
Ending defined benefit obligation	\$625,367	\$21,528

Changes in fair value of plan assets are as follows:

	For the year ended 31 December 2013	
	NT\$	US\$
Beginning fair value of plan assets	\$348,590	11,686
Expected return on plan assets	5,460	183
Contributions by employer	36,838	1,235
Benefits paid	(7,816)	(262)
Actuarial gains (losses)	(1,824)	(61)
Ending fair value of plan assets	\$381,248	\$12,781

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Notes to consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

	For the year ended 31 December 2012	
	NT\$	US\$
Beginning fair value of plan assets	\$312,974	\$10,774
Expected return on plan assets	5,370	185
Contributions by employer	35,467	1,221
Benefits paid	(3,864)	(133)
Actuarial gains (losses)	(1,357)	(47)
Ending fair value of plan assets	<u>\$348,590</u>	<u>\$12,000</u>

The Company expects to contribute NT\$36,710 (US\$1,231) thousands to its defined benefit plan during the 12 months beginning after 31 December 2013.

The major categories of plan assets as a percentage of the fair value of total plan assets are as follows:

	Pension plan (%) as at		
	31 December 2013	31 December 2012	1 January 2012
Cash	81.30%	80.10%	23.87%
Equity instruments	8.80%	9.40%	35.38%
Debt instruments	9.90%	10.50%	40.75%

For the years ended 31 December 2013 and 2012, the actual amount of plan assets is NT\$3,636 (US\$122) thousands and NT\$4,012 (US\$138) thousands.

Employee pension fund is deposited under a trust administered by the Bank of Taiwan. The overall expected rate of return on assets is determined based on historical trend and analyst's expectation on the asset's return in its market over the obligation period. Furthermore, the utilization of the fund by the labor pension fund supervisory committee and the fact that the minimum earnings are guaranteed to be no less than the earnings attainable from the amounts accrued from two-year time deposits with the interest rates offered by local banks are also taken into consideration in determining the expected rate of return on assets.

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Notes to consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

The principal assumptions used in determining the Company's defined benefit plan are shown below:

	2013.12.31	2012.12.31	2012.1.1
Discount rate	1.92%	1.54%	1.68%
Expected rate of return on plan assets	1.92%	1.54%	1.68%
Expected rate of salary increases	1.50%	1.50%	1.50%

A 0.5 percentage point change in discount rate on defined benefit obligation:

	2013.12.31			
	Increase		Decrease	
	NT\$	US\$	NT\$	US\$
Effect on the defined benefit obligation	\$50,660	\$1,698	\$46,145	\$1,547

	2012.12.31			
	Increase		Decrease	
	NT\$	US\$	NT\$	US\$
Effect on the defined benefit obligation	\$50,762	\$1,747	\$45,904	\$1,580

Other information on the defined benefit plan is as follows:

	For the year ended 31 December 2013	
	NT\$	US\$
Defined benefit obligation at present value	\$(706,615)	\$(23,688)
Plan assets at fair value	381,248	12,781
Surplus (deficit) in plan	(325,367)	(10,907)
Experience adjustments on plan liabilities	69,374	2,326
Experience adjustments on plan assets	1,824	61

	For the year ended 31 December 2012	
	NT\$	US\$
Defined benefit obligation at present value	\$(625,367)	\$(21,528)
Plan assets at fair value	348,590	12,000
Surplus (deficit) in plan	(276,777)	(9,528)
Experience adjustments on plan liabilities	13,936	480
Experience adjustments on plan assets	1,357	47

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Notes to consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

(13) Common stock

As of 31 December 2013, 31 December 2012 and 1 January 2012, the authorized and issued shares were 272,188, 252,295 and 231,701 thousands shares with par value of NT\$10 each. Each share has one voting right and a right to receive dividends.

As recommended and approved by the board meeting of directors on 24 April 2012, the Company issued 20,594 thousands new shares from capitalization of retained earnings. It was authorized by the Securities and Futures Bureau of the Financial Supervisory Commission, and the date of capitalization was 8 June 2012.

As recommended and approved by the board meeting of directors on 30 April, 2013, the Company issued 19,893 thousands new shares from capitalization of retained earnings. It was authorized by the Securities and Futures Bureau of the Financial Supervisory Commission, and the date of capitalization was 21 June 2013.

(14) Retained earnings

A. Legal reserve

Pursuant to the ROC Insurance Act, 20% of the annual after-tax net income of the Company shall be appropriated as a legal reserve until the total amount of the legal reserve equals to the amount of issued share capital.

B. Special capital reserve

Following the adoption of TIFRS, the FSC on 6 April 2012 issued Order No. Financial-Supervisory-Securities-Corporate-1010012865, which sets out the following provisions for compliance:

On a public company's first-time adoption of the TIFRS, for any unrealized revaluation gains and cumulative translation adjustments (gains) recorded to shareholders' equity that the company elects to transfer to retained earnings by application of the exemption under IFRS 1, the company shall set aside an equal amount of special reserve. The Company doesn't have the above special capital reserve result in it has no unrealized revaluation and cumulative translation adjustment (gain).

Special reserves for major incidents and special reserves for fluctuation of risks should be rewarded as special capital reserve under equity at the end of the year. For the years ended 31 December 2013, the reserves amounted to NT\$1,364,645 (US\$45,747) thousands.

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C. Retained earnings

According to the Company's articles of incorporation, the Company's annual earnings, after paying tax and offsetting deficits, if any, shall be appropriated first as legal reserve and special capital reserve according to law. The total remaining amount plus beginning undistributed earnings are the distributable earnings. The distributable earnings must be appropriated in accordance with the resolution by the stockholders' meeting. The dividends go first to preferred stockholders for current year dividends and any dividends that have been omitted in the past. From the remainder, there should be appropriations of 2% as bonus to employees.

The Company accrued profit sharing to employees based on certain percentage of net income seated in the article of corporation after considering the legal reserve, which amount to \$0 (US\$0) for the years ended 31 December 2013 and 2012, respectively. The employee bonus was recorded as operating cost and expense at current year. Any difference exists between the accrual and actual amount resolved by the stockholder's meeting shall be recorded in 2014 and 2013.

Details of the 2013 and 2012 earnings distribution and dividends per share as approved by the company's Board of directors on 13 March 2014 and 30 April 2013, respectively, are as follows:

	<u>Appropriation of Earnings (NT\$)</u>		<u>Dividend Per Share (NT\$)</u>	
	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
Legal reserve	\$113,928	\$138,127	\$-	\$-
Legal reserve make up losses	(38,953)	-	-	-
Special capital reserve	-	(53,919)	-	-
Common stock-stock dividend	-	198,929	-	0.79
Directors' remuneration	-	72	-	-
Employee bonus-Cash	-	1,485	-	-
Total	<u>\$74,975</u>	<u>\$284,694</u>		

	<u>Appropriation of Earnings (US\$)</u>		<u>Dividend Per Share (US\$)</u>	
	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
Legal reserve	\$3,819	\$4,611	\$-	\$-
Legal reserve make up losses	(1,306)	-	-	-
Special capital reserve	-	(1,800)	-	-
Common stock-stock dividend	-	6,639	-	0.03
Directors' remuneration	-	2	-	-
Employee bonus-Cash	-	50	-	-
Total	<u>\$2,513</u>	<u>\$9,502</u>		

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There is no significant difference between the actual employee bonuses and remuneration to directors and supervisors distributed from the 2012's earnings and the estimated amount in the financial statements for the year ended 2012.

Information on the Board of Directors' recommendations and shareholders' approval regarding the employee bonuses and remuneration to directors and supervisors can be obtained from the "Market Observation Post System" on the website of the TWSE.

(15) Non-controlling interests

	2013.12.31		2012.12.31	
	NT\$	US\$	NT\$	US\$
Beginning balance	\$300,290	\$10,067	\$629,070	\$21,655
Loss attributable to non-controlling interests	(446,387)	(14,964)	(324,496)	(11,170)
Other comprehensive income, attributable to non-controlling interests, net of tax:				
Exchange differences resulting from translating the financial statements of a foreign operation	13,944	467	(17,086)	(588)
Unrealized (losses) gains from available-for-sale financial assets	(3,286)	(110)	12,802	440
Share of changes in net assets of associates and joint ventures accounted for using the equity method	485,551	16,277	-	-
Ending balance	<u>\$350,112</u>	<u>\$11,737</u>	<u>\$300,290</u>	<u>\$10,337</u>

(16) Retained earned premium

Item	For the year ended 31 December 2013					
	NT\$					
	Direct premium income (1)	Reinsurance premium income (2)	Reinsurance premiums ceded (3)	Retained premiums (4)=(1)+(2)-(3)	Net change for unearned premiums reserve (5)	Retained earned premium (6)=(4)-(5)
Fire insurance	\$2,904,496	\$108,304	\$1,879,554	\$1,133,246	\$(127,166)	\$1,260,412
Marine insurance	656,565	42,917	476,225	223,257	52	223,205
Land and air insurance	6,166,184	14,659	297,904	5,882,939	607,130	5,275,809
Liability insurance	1,043,375	1,106	338,876	705,605	27,083	678,522
Bonding insurance	72,404	1,224	38,672	34,956	(415)	35,371
Other property insurance	2,218,619	41,367	432,999	1,826,987	357,293	1,469,694
Accident insurance	2,517,703	5,791	145,979	2,377,515	(6,552)	2,384,067
Health insurance	160,344	-	513	159,831	(38,226)	198,057
Compulsory automobile liability insurance	3,488,449	283,158	835,549	2,936,058	305,016	2,631,042
Total	<u>\$19,228,139</u>	<u>\$498,526</u>	<u>\$4,446,271</u>	<u>\$15,280,394</u>	<u>\$1,124,215</u>	<u>\$14,156,179</u>

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(Expressed in thousands of dollars unless otherwise stated)

For the year ended 31 December 2013						
US\$						
Item	Direct premium income	Reinsurance premium income	Reinsurance premiums ceded	Retained premiums	Net change for unearned premiums reserve	Retained earned premium
	(1)	(2)	(3)	(4)=(1)+(2)-(3)	(5)	(6)=(4)-(5)
Fire insurance	\$97,368	\$3,631	\$63,009	\$37,990	\$(4,263)	\$42,253
Marine insurance	22,010	1,439	15,965	7,484	1	7,483
Land and air insurance	206,711	491	9,987	197,215	20,353	176,862
Liability insurance	34,978	37	11,361	23,654	908	22,746
Bonding insurance	2,427	41	1,296	1,172	(14)	1,186
Other property insurance	74,376	1,387	14,516	61,247	11,977	49,270
Accident insurance	84,402	194	4,893	79,703	(219)	79,922
Health insurance	5,375	-	17	5,358	(1,282)	6,640
Compulsory automobile liability insurance	116,944	9,492	28,010	98,426	10,226	88,200
Total	\$644,591	\$16,712	\$149,054	\$512,249	\$37,687	\$474,562

For the year ended 31 December 2012						
NT\$						
Item	Direct premium income	Reinsurance premium income	Reinsurance premiums ceded	Retained premiums	Net change for unearned premiums reserve	Retained earned premium
	(1)	(2)	(3)	(4)=(1)+(2)-(3)	(5)	(6)=(4)-(5)
Fire insurance	\$2,985,247	\$99,597	\$1,816,933	\$1,267,911	\$132,283	\$1,135,628
Marine insurance	837,375	39,975	669,899	207,451	10,235	197,216
Land and air insurance	5,046,347	20,081	223,738	4,842,690	479,884	4,362,806
Liability insurance	987,686	663	352,536	635,813	64,560	571,253
Bonding insurance	63,146	1,186	26,895	37,437	(465)	37,902
Other property insurance	1,309,640	45,274	396,432	958,482	239,568	718,914
Accident insurance	2,372,577	8,072	166,776	2,213,873	(13,101)	2,226,974
Health insurance	124,417	-	1,950	122,467	(58,277)	180,744
Compulsory automobile liability insurance	2,818,880	280,083	771,320	2,327,643	35,334	2,292,309
Total	\$16,545,315	\$494,931	\$4,426,479	\$12,613,767	\$890,021	\$11,723,746

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For the year ended 31 December 2012						
US\$						
Item	Direct premium income (1)	Reinsurance premium income (2)	Reinsurance premiums ceded (3)	Retained premiums (4)=(1)+(2)-(3)	Net change for unearned premiums reserve (5)	Retained earned premium (6)=(4)-(5)
Fire insurance	\$102,762	\$3,429	\$62,545	\$43,646	\$4,554	\$39,092
Marine insurance	28,825	1,376	23,060	7,141	352	6,789
Land and air insurance	173,713	691	7,702	166,702	16,519	150,183
Liability insurance	34,000	23	12,135	21,888	2,223	19,665
Bonding insurance	2,174	41	926	1,289	(16)	1,305
Other property insurance	45,082	1,558	13,647	32,993	8,247	24,746
Accident insurance	81,672	278	5,741	76,209	(451)	76,660
Health insurance	4,283	-	67	4,216	(2,006)	6,222
Compulsory automobile liability insurance	97,035	9,641	26,551	80,125	1,216	78,909
Total	\$569,546	\$17,037	\$152,374	\$434,209	\$30,638	\$403,571

(17) Retained claim paid

For the year ended 31 December 2013				
NT\$				
Item	Insurance claims paid (1)	Reinsurance claims paid (2)	Claims recovered from reinsurers (3)	Retained claim paid (4)=(1)+(2)-(3)
Fire insurance	\$(1,014,465)	\$(2,686)	\$(354,524)	\$(662,627)
Marine insurance	(461,897)	(56,882)	(337,863)	(180,916)
Land and air insurance	(3,399,267)	(10,652)	(108,120)	(3,301,799)
Liability insurance	(482,483)	(138)	(138,615)	(344,006)
Bonding insurance	5,855	(168)	11,856	(6,169)
Other property insurance	(808,192)	(15,523)	(89,909)	(733,806)
Accident insurance	(932,756)	(3,502)	(65,656)	(870,602)
Health insurance	(119,103)	-	(160)	(118,943)
Compulsory automobile liability insurance	(2,142,371)	(299,178)	(825,404)	(1,616,145)
Total	\$(9,354,679)	\$(388,729)	\$(1,908,395)	\$(7,835,013)

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For the year ended 31 Decmeber 2013				
US\$				
Item	Insurance claims paid (1)	Reinsurance claims paid (2)	Claims recovered from reinsurers (3)	Retained claim paid (4)=(1)+(2)-(3)
Fire insurance	\$(34,008)	\$ (90)	\$(11,885)	\$(22,213)
Marine insurance	(15,485)	(1,907)	(11,326)	(6,066)
Land and air insurance	(113,955)	(357)	(3,625)	(110,687)
Liability insurance	(16,175)	(5)	(4,647)	(11,533)
Bonding insurance	197	(6)	398	(207)
Other property insurance	(27,093)	(520)	(3,014)	(24,599)
Accident insurance	(31,269)	(117)	(2,201)	(29,185)
Health insurance	(3,993)	-	(5)	(3,988)
Compulsory automobile liability insurance	(71,819)	(10,029)	(27,670)	(54,178)
Total	\$(313,600)	\$(13,031)	\$(63,975)	\$(262,656)

For the year ended 31 Decmeber 2012				
NT\$				
Item	Insurance claims paid (1)	Reinsurance claims paid (2)	Claims recovered from reinsurers (3)	Retained claim paid (4)=(1)+(2)-(3)
Fire insurance	\$(1,319,195)	\$(4,895)	\$(635,370)	\$(688,720)
Marine insurance	(424,162)	3,465	(216,764)	(203,933)
Land and air insurance	(2,885,578)	(24,184)	(129,925)	(2,779,837)
Liability insurance	(325,192)	(184)	(82,613)	(242,763)
Bonding insurance	(4,116)	(357)	(7,009)	2,536
Other property insurance	(390,286)	(9,980)	(66,411)	(333,855)
Accident insurance	(1,008,751)	(13,474)	(90,722)	(931,503)
Health insurance	(157,658)	-	(1,110)	(156,548)
Compulsory automobile liability insurance	(1,769,121)	(262,057)	(696,501)	(1,334,677)
Total	\$(8,284,059)	\$(311,666)	\$(1,926,425)	\$(6,669,300)

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For the year ended 31 Decmeber 2012				
US\$				
Item	Insurance claims paid (1)	Reinsurance claims paid (2)	Claims recovered from reinsurers (3)	Retained claim paid (4)=(1)+(2)-(3)
Fire insurance	\$(45,411)	\$(169)	\$(21,872)	\$(23,708)
Marine insurance	(14,601)	119	(7,462)	(7,020)
Land and air insurance	(99,331)	(832)	(4,472)	(95,691)
Liability insurance	(11,194)	(6)	(2,844)	(8,356)
Bonding insurance	(142)	(12)	(241)	87
Other property insurance	(13,435)	(344)	(2,286)	(11,493)
Accident insurance	(34,725)	(464)	(3,123)	(32,066)
Health insurance	(5,427)	-	(38)	(5,389)
Compulsory automobile liability insurance	(60,899)	(9,021)	(23,976)	(45,944)
Total	\$(285,165)	\$(10,729)	\$(66,314)	\$(229,580)

(18) Components of other comprehensive income

For the year ended 31 Decmeber 2013					
NT\$					
	Arising during the period	Reclassification adjustments during the period	Other comprehensive income, before tax	Income tax relating to components of other comprehensive income	Other comprehensive income, net of tax
Exchange differences resulting from translating the financial statements of a foreign operation	\$29,920	\$-	\$29,920	\$-	\$29,920
Unrealized gains (losses) from available-for-sale financial assets	(307,091)	162,354	(144,737)	1,090	(143,647)
Gains (losses) on cash flow hedges	(7,113)	-	(7,113)	-	(7,113)
Share of other comprehensive income of associates and joint ventures accounted for using the equity method	1	-	1	-	1
Total of other comprehensive income	\$(284,283)	\$162,354	\$(121,929)	\$1,090	\$(120,839)

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For the year ended 31 December 2013

	US\$				
	Arising during the period	Reclassification adjustments during the period	Other comprehensive income, before tax	Income tax relating to components of other comprehensive income	Other comprehensive income, net of tax
Exchange differences resulting from translating the financial statements of a foreign operation	\$1,003	\$-	\$1,003	\$-	\$1,003
Unrealized gains (losses) from available-for-sale financial assets	(10,295)	5,443	(4,852)	37	(4,815)
Gains (losses) on cash flow hedges	(239)	-	(239)	-	(239)
Total of other comprehensive income	\$(9,531)	\$5,443	\$(4,088)	\$37	\$(4,051)

For the year ended 31 December 2012

	NT\$				
	Arising during the period	Reclassification adjustments during the period	Other comprehensive income, before tax	Income tax relating to components of other comprehensive income	Other comprehensive income, net of tax
Exchange differences resulting from translating the financial statements of a foreign operation	\$(47,245)	\$-	\$(47,245)	\$-	\$(47,245)
Unrealized gains (losses) from available-for-sale financial assets	26,696	140,083	166,779	-	166,779
Gains (losses) on cash flow hedges	(11,387)	-	(11,387)	-	(11,387)
Share of other comprehensive income of associates and joint ventures accounted for using the equity method	(6)	-	(6)	-	(6)
Total of other comprehensive income	\$(31,942)	\$140,083	\$108,141	\$-	\$108,141

For the year ended 31 December 2012

	US\$				
	Arising during the period	Reclassification adjustments during the period	Other comprehensive income, before tax	Income tax relating to components of other comprehensive income	Other comprehensive income, net of tax
Exchange differences resulting from translating the financial statements of a foreign operation	\$(1,627)	\$-	\$(1,627)	\$-	\$(1,627)
Unrealized gains (losses) from available-for-sale financial assets	919	4,822	5,741	-	5,741
Gains (losses) on cash flow hedges	(392)	-	(392)	-	(392)
Total of other comprehensive income	\$(1,100)	\$4,822	\$3,722	\$-	\$3,722

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(19) Summary statement of employee benefits, depreciation and amortization expenses by function during the years ended 31 December 2013 and 2012:

Item	For the year ended 31 December 2013 (NT\$)			For the year ended 31 December 2012 (NT\$)		
	Operating Costs	Operating expenses	Total	Operating costs	Operating expenses	Total
Personnel Expenses						
Payroll expenses	\$-	\$2,156,327	\$2,156,327	\$-	\$1,844,962	\$1,844,962
Labor & health insurance expenses	-	161,698	161,698	-	129,452	129,452
Pension expenses	-	82,263	82,263	-	70,336	70,336
Other expenses	-	80,124	80,124	-	59,330	59,330
Depreciation	-	84,949	84,949	-	85,454	85,454
Amortization	-	33,204	33,204	-	23,262	23,262

Item	For the year ended 31 December 2013 (US\$)			For the year ended 31 December 2012 (US\$)		
	Operating Costs	Operating expenses	Total	Operating costs	Operating expenses	Total
Personnel Expenses						
Payroll expenses	\$-	\$72,287	\$72,287	\$-	\$63,510	\$63,510
Labor & health insurance expenses	-	5,421	5,421	-	4,456	4,456
Pension expenses	-	2,758	2,758	-	2,421	2,421
Other expenses	-	2,686	2,686	-	2,042	2,042
Depreciation	-	2,848	2,848	-	2,942	2,942
Amortization	-	1,113	1,113	-	801	801

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(20) Income tax

The major components of income tax expense (income) are as follows:

Income tax expense (income) recognized in profit or loss

	For the year ended 31 December			
	2013		2012	
	NT\$	US\$	NT\$	US\$
Current income tax expense:				
Current income tax charge	\$207,241	\$6,947	\$167,904	\$5,780
Adjustments in respect of current income tax of prior periods	1	-	7,717	264
Deferred tax expense (income):				
Deferred tax expense (income) related to origination and reversal of temporary differences	10,711	359	20,776	716
Total income tax expense	<u>\$217,953</u>	<u>\$7,306</u>	<u>\$196,397</u>	<u>\$6,760</u>

Income tax related to components of other comprehensive income

	For the year ended 31 December			
	2013		2012	
	NT\$	US\$	NT\$	US\$
Deferred tax expense (income):				
Unrealized gains from available-for-sale financial assets	\$(1,090)	\$(37)	\$-	\$-

A reconciliation between tax expense and the product of accounting profit multiplied by applicable tax rates is as follows:

	For the year ended 31 December			
	2013		2012	
	NT\$	US\$	NT\$	US\$
Accounting profit before tax from continuing operations	\$547,007	\$18,337	\$567,121	\$19,522
At the Company's statutory income tax rate of 17%	\$168,938	\$5,663	\$151,881	\$5,228
Tax effect of expenses not deductible for tax purposes	48,543	1,627	34,608	1,191
Tax effect of revenues exempt from taxation	376	13	365	12
Tax effect of deferred tax assets/liabilities	95	3	1,826	65
Adjustments in respect of current income tax of prior periods	1	-	7,717	264
Total income tax expense recognized in profit or loss	<u>\$217,953</u>	<u>\$7,306</u>	<u>\$196,397</u>	<u>\$6,760</u>

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Deferred tax assets (liabilities) relate to the following:

	For the year ended 31 December 2013				
	NT\$				
	Beginning balance	Deferred tax income (expense) recognized in profit or loss	Deferred tax income (expense) recognized in other comprehensive income	Exchange differences	Ending balance
Temporary differences					
Revaluations of financial assets at fair value through profit or loss	\$ (17,949)	\$ 17,949	\$ -	\$ -	\$ -
Revaluations of available-for-sale investments to fair value	-	-	1,090	-	1,090
Revaluations of financial liabilities at fair value through profit or loss	-	15,118	-	-	15,118
Provisions for employee benefits liability	42,607	(383)	-	-	42,224
Bad debt losses	18,666	125	-	-	18,791
Unrealized exchange loss	19,477	(19,477)	-	-	-
Unrealized exchange gain	(356)	(24,043)	-	(5)	(24,404)
Deferred tax income expense		\$ (10,711)	\$ 1,090	\$ (5)	
Net deferred tax assets/(liabilities)	\$ 62,445				\$ 52,819
Reflected in balance sheet as follows:					
Deferred tax assets	\$ 80,750				\$ 77,223
Deferred tax liabilities	\$ (18,305)				\$ (24,404)

	For the year ended 31 December 2013				
	US\$				
	Beginning balance	Deferred tax income (expense) recognized in profit or loss	Deferred tax income (expense) recognized in other comprehensive income	Exchange differences	Ending balance
Temporary differences					
Revaluations of financial assets at fair value through profit or loss	\$ (602)	\$ 602	\$ -	\$ -	\$ -
Revaluations of available-for-sale investments to fair value			37	-	37
Revaluations of financial liabilities at fair value through profit or loss		507	-	-	507
Provisions for employee benefits liability	1,428	(13)	-	-	1,415
Bad debt losses	626	4	-	-	630
Unrealized exchange loss	653	(653)	-	-	-
Unrealized exchange gain	(12)	(806)	-	-	(818)
Deferred tax income expense		\$ (359)	\$ 37	\$ -	
Net deferred tax assets/(liabilities)	\$ 2,093				\$ 1,771
Reflected in balance sheet as follows:					
Deferred tax assets	\$ 2,707				\$ 2,589
Deferred tax liabilities	\$ (614)				\$ (818)

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	2012.12.31 (NT\$)			
	Beginning balance	Deferred tax income (expense)		Ending balance
		recognized in profit or loss	Exchange differences	
Temporary differences				
Revaluations of financial assets at fair value through profit or loss	\$-	\$(17,949)	\$-	\$(17,949)
Revaluations of financial liabilities at fair value through profit or loss	38,387	(38,387)	-	-
Provisions for employee benefits liability	44,113	(1,506)	-	42,607
Bad debt losses	19,369	(703)	-	18,666
Unrealized exchange loss	-	19,477	-	19,477
Unrealized exchange gain	(22,311)	21,917	38	(356)
Unused tax credits	3,625	(3,625)	-	-
Deferred tax income expense		\$(20,776)	\$38	
Net deferred tax assets/(liabilities)	\$83,183			\$62,445
Reflected in balance sheet as follows:				
Deferred tax assets	\$105,494			\$80,750
Deferred tax liabilities	\$(22,311)			\$(18,305)

	2012.12.31 (US\$)			
	Beginning balance	Deferred tax income (expense)		Ending balance
		recognized in profit or loss	Exchange differences	
Temporary differences				
Revaluations of financial assets at fair value through profit or loss	\$-	\$(618)	\$-	\$(618)
Revaluations of financial liabilities at fair value through profit or loss	1,321	(1,321)	-	-
Provisions for employee benefits liability	1,519	(52)	-	1,467
Bad debt losses	667	(25)	-	642
Unrealized exchange loss	-	670	-	670
Unrealized exchange gain	(768)	755	1	(12)
Unused tax credits	125	(125)	-	-
Deferred tax income expense		\$(716)	\$1	
Net deferred tax assets/(liabilities)	\$2,864			\$2,149
Reflected in balance sheet as follows:				
Deferred tax assets	\$3,632			\$2,779
Deferred tax liabilities	\$(768)			\$(630)

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Unrecognized deferred tax assets

As of 31 December 2013, 31 December 2012, and 1 January 2012, deferred tax assets that have not been recognized as they may not be used to offset taxable profits amount to NT\$202,236 (US\$6,780), NT\$122,863 (US\$4,229), and NT\$59,705 (US\$1,972), respectively.

Imputation credit information

NT\$	2013.12.31	2012.12.31	2012.1.1
Balances of imputation credit amounts	\$14,839	\$5,924	\$8,203

US\$	2013.12.31	2012.12.31	2012.1.1
Balances of imputation credit amounts	\$497	\$204	\$271

The expected creditable ratio for 2013 and the actual creditable ratio for 2012 were 19.79% and 0%, respectively.

The Company's earnings generated in the year ended 31 December 1997 and prior years have been fully appropriated.

The assessment of income tax returns

As of 31 December 2013, the assessment of the income tax returns of the Company and its subsidiaries is as follows:

	<u>The assessment of income tax returns</u>
The Company	Assessed and approved up to 2006

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(21) Earnings per share

Basic earnings per share amounts are calculated by dividing net profit for the year attributable to ordinary equity holders of the parent entity by the weighted average number of ordinary shares outstanding during the year.

The company did not issue dilutive potential common stock; therefore, the basic earnings per share need not be adjusted

	For the years ended 31 December,	
	2013	2012
Profit attributable to ordinary equity holders of the Company (in thousand NT\$)	\$775,441	\$695,220
Weighted average number of ordinary shares outstanding for basic earnings per share (in thousands)	272,188	272,188
Basic earnings per share (in dollars NT\$)	\$2.85	\$2.55

	For the years ended 31 December,	
	2013	2012
Profit attributable to ordinary equity holders of the Company (in thousand US\$)	\$25,995	\$23,932
Weighted average number of ordinary shares outstanding for basic earnings per share (in thousands)	272,188	272,188
Basic earnings per share (in dollars US\$)	\$0.10	\$0.09

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7. Risk management information of insurance contract and financial instruments

(1)The structure, organization, the scope of rights and responsibilities of risk management:

A. The framework, organization, and responsibility of risk management

Responsibility :

(A) Board of directors

- a. To recognize various risks associated with insurance business, assure effectiveness of risk management and take ultimate responsibility for risk management as a whole.
- b. To establish appropriate mechanism and culture for risk management, ratify appropriate risk management policies and optimize resource allocation.
- c. To consider the aggregate effect of various risks from the perspective of the Company as a whole, take into account the regulatory capital requirements from the competent authority and other related capital allocation regulations regarding finance and business.

(B) Risk Management Committee

- a. To formulate risk management policies, frameworks, and organizations; To build quantitative and qualitative management standards, regularly report to board of directors, reflect timely the execution of risk management and propose necessary steps for improvement.
- b. To execute risk management decisions from board of directors and review development, establishment and effectiveness of risk management mechanism for the Company as a whole on a regular basis.
- c. To assist and supervise various departments in risk management activities.
- d. To adjust risk category, allotment, and attribution in response to changes in the environment.
- e. To coordinate the interaction and communication of risk management function across departments.

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(C) Risk management department

a. Risk management department is established independent of sales function to take charge of tasks such as the supervision and evaluation of various major risks.

b. Responsibility of risk management division:

- (a) To assist in drafting risk management policies and the execution when ratified by the board of directors.
- (b) To assist in setting up risk limits according to the risk appetite.
- (c) To compile risk information from various departments, coordinate and communicate with them to execute policies and limits.
- (d) To propose risk management related reports on a regular basis.
- (e) To supervise risk limit and its use in each business unit on a regular basis.
- (f) To assist in stress tests and conduct back-testing when necessary.
- (g) To conduct other risk management related tasks.

(D) Business unit

a. The responsibilities of business's risk management are as follows:

- (a) To supervise the daily risk management and report of the responsible unit and take necessary responsive actions.
- (b) To oversee the sharing of risk management information to risk management on a regular basis.

b. The business unit's responsibilities for risk management are as follows:

- (a) To identify risk and report risk exposure.
- (b) To evaluate (quantitative or qualitative) the degree of influence when risks occur and pass the risk information in a timely and correct manner.
- (c) To review each risk item and its limit on a regular basis to insure the effective execution of risk limit within business unit.
- (d) To oversee risk exposure and report when over-limit occur, including measures taken against it.

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- (e) To assist in development of risk model to insure the evaluation of risk, use of model, and its assumption are conducted on a reasonable basis and is consistent with actual practice.
- (f) To assure effective execution of internal control within business unit to comply with relevant regulations and risk management policies of the Company.
- (g) To assist in collecting information regarding operation risk.

(E) Internal audit room

Audit the execution of risk management of each unit in the Company according to the existing relevant regulations.

B. Scope and nature of risk reporting and evaluation system of property insurance

(A) Risks reporting

- a. Each business unit within Cathay Century should pass risk information to risk management unit for overseeing purpose, and propose over-limit report and responding measures when risk exposure is over limit.
- b. Risk management unit compiles risk information from each department, examine and track the use of major risk limit, submit a monthly risk management report to the general manager, and make quarterly report to the risk management committee board of director to oversee risks on a regular basis.

(B) Scope and nature of risk evaluation system

The risk management unit of the company and that of its parent company's, Cathay Financial Holding Limited, collaborate in building market risk management system. The structure will consider functionality, source of information, completeness of uploaded information, and the safety of the environment in which the system operates. Function-wise, risk management system focuses on the need of middle office to quantify risk, and it would only be authorized to risk management personnel.

C. Processes to undertake, evaluate, supervise and control insurance risk of property insurance business. Policy in underwriting to assure proper risk categorization and fee standard.

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In the company, risk management department takes responsibilities in monitoring risks, integrate insurance risk of the company as a whole, and set up risk indicators, risk limit, and managing mechanism. Each related department is the execution unit of insurance risk control. They report execution process to risk management department every month based on regulation, internal rules, and professional knowledge and experience of their respective field. Risk management department then propose insurance risk management report to the board of directors each quarter.

- D. Evaluate risk from the perspective of enterprise as a whole and the scope in managing insurance risk

Scope of insurance risk management of the company includes product design and pricing, underwriting, reinsurance, risks related to catastrophe, claim, and provision. Proper management mechanisms are set up and execute thoroughly.

- E. Methods with which property insurance business limit insurance risk exposure and improper risk concentration

Before a business is introduced, the underwriting personnel will evaluate the quality of the business based on the underwriting guideline of each insurance to decide whether to undertake the business. Risk is properly avoided and controlled to reduce exposure.

In addition, as the company undertakes reinsurance business, risk management mechanism is set up in accordance with “Regulations Governing Insurance Enterprises Engaging in Operating Reinsurance and Other Risk Spreading Mechanisms” and the ability to undertake risk is taken into account for the establishment of re-insurance risk management plan which execution is based upon. Accumulated risk with the portfolio of direct written premiums and other inward-insurance business is conducted before an individual case of outward/inward reinsurance is executed. When the cumulative insurance amount exceeds contract limit or self-retain limit, risk is diversified through facultative reinsurance.

According to the Company’s risk management mechanism for reinsurance business, the maximum for the retained risk per risk unit is calculated as 10% of the summary amount of stockholder’s equities and special reserves (excluding of Compulsory automobile insurance). The following table summarizes the underlying retention for each risk unit by types of insurance:

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Item	2013		2012	
	NT\$	US\$	NT\$	US\$
Fire insurance	\$673,000	\$22,561	\$613,000	\$21,102
Marine insurance	673,000	22,561	613,000	21,102
Engineering insurance	673,000	22,561	613,000	21,102
Other property insurance	673,000	22,561	613,000	21,102
Automobile insurance	673,000	22,561	613,000	21,102
Health and injury insurance	673,000	22,561	613,000	21,102

F. Methods of asset/liability management

Provisions are evaluated on a regular basis based on the company's business characteristics to insure fund allocation and the liquidity of asset investment is sufficient to meet possible future claims. Cash flow management with comprehensive consideration of the amount of fund required and its timeline of every department is conducted through fund procurement department, which is independent of trading unit.

Operation standards under crisis are set up in accordance with the "Directions for Handling Financial Institute Crisis" issued by Financial Supervision Commission. When tremendous sum of fund is lost or liquidity is severely compromised, the operation crisis team will be set up immediately to evaluate the impact on fund liquidity of the company cautiously and assess the amount, timeline, and benefit of making up the funding gap so as to assure rights of clients and the company.

G. Management, supervision, control process when additional liability or commitment to equity contribution is required for the property insurance business

The company has established a management mechanism for capital adequacy, which includes capital adequacy indicators for regular review, and every six month a capital adequacy management report will be compiled to implement capital adequacy management.

If capital adequacy ratio exceeds control standard (risk limit) or in the case of unusual events, related departments will meet together to study counter-measures and report to the parent company, Cathay Financial Holdings, to review the impact on the group's capital adequacy ratio.

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(2) Receivables and payables of insurance contracts

A. Receivables of insurance contracts

Item	Premiums receivable(Note)		
	NT\$		
	2013.12.31	2012.12.31	2012.1.1
Fire insurance	\$605,859	\$665,154	\$342,994
Marine insurance	266,869	369,048	477,307
Land and air insurance	852,082	748,157	638,561
Liability insurance	173,230	217,416	135,547
Bonding insurance	27,737	13,983	11,456
Other property insurance	427,980	345,181	440,887
Accident insurance	270,300	288,526	235,275
Health insurance	25,735	22,994	87,566
Compulsory automobile liability insurance	286,025	268,872	251,058
Total	2,935,817	2,939,331	2,620,651
Less: Allowance for bad debts	(64,162)	(69,978)	(78,752)
Net	\$2,871,655	\$2,869,353	\$2,541,899

Item	Premiums receivable(Note)		
	US\$		
	2013.12.31	2012.12.31	2012.1.1
Fire insurance	\$20,310	\$22,897	\$11,331
Marine insurance	8,946	12,704	15,768
Land and air insurance	28,565	25,754	21,096
Liability insurance	5,807	7,484	4,478
Bonding insurance	930	481	378
Other property insurance	14,347	11,882	14,565
Accident insurance	9,061	9,932	7,773
Health insurance	863	792	2,893
Compulsory automobile liability insurance	9,589	9,255	8,294
Total	98,418	101,181	86,576
Less: Allowance for bad debts	(2,151)	(2,408)	(2,602)
Net	\$96,267	\$98,773	\$83,974

Note : As of 31 December 2013, 31 December 2012, and 1 January 2012, the receivables included overdue receivables amounted to NT\$484,663 (US\$16,248) thousands, NT\$497,914 (US\$17,140) thousands and NT\$281,695 (US\$9,306) thousands, the allowance for bad debts amounted to NT\$20,634 (US\$692) thousands, NT\$31,767 (US\$1,094) thousands and NT\$42,183 (US\$1,394) thousands.

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B. Claims recoverable from reinsurers for policyholder with reported and paid off claims

Item	Claims reported and paid off		
	NT\$		
	2013.12.31	2012.12.31	2012.1.1
Fire insurance	\$22,767	\$241,267	\$76,577
Marine insurance	37,647	42,699	58,775
Land and air insurance	25,154	40,214	18,463
Liability insurance	21,545	13,506	14,907
Bonding insurance	(2)	8	2,406
Other property insurance	31,352	8,231	25,509
Accident insurance	15,040	23,435	17,873
Health insurance	-	-	-
Compulsory automobile liability insurance	179,208	144,232	53,741
Total	332,711	513,592	268,251
Less: Allowance for bad debts	-	-	-
Net	\$332,711	\$513,592	\$268,251

Item	Claims reported and paid off		
	US\$		
	2013.12.31	2012.12.31	2012.1.1
Fire insurance	\$763	\$8,305	\$2,530
Marine insurance	1,262	1,470	1,942
Land and air insurance	843	1,385	610
Liability insurance	722	465	492
Bonding insurance	-	-	80
Other property insurance	1,051	283	843
Accident insurance	504	807	590
Health insurance	-	-	-
Compulsory automobile liability insurance	6,008	4,965	1,775
Total	11,153	17,680	8,862
Less: Allowance for bad debts	-	-	-
Net	\$11,153	\$17,680	\$8,862

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Cathay Century Insurance Co., Ltd. and Subsidiaries

Notes to consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

C. Payables of insurance contract

Item	2013.12.31					
	Commission payables		Other payables		Total	
	NT\$	US\$	NT\$	US\$	NT\$	US\$
Fire insurance	\$3,411	\$114	\$7,178	\$241	\$10,589	\$355
Marine insurance	2,394	80	3,529	118	5,923	198
Land and air insurance	5,524	185	91,621	3,071	97,145	3,256
Liability insurance	2,554	86	7,166	240	9,720	326
Bonding insurance	74	2	210	7	284	9
Other property insurance	44,466	1,491	6,082	204	50,548	1,695
Accident insurance	206	7	26,940	903	27,146	910
Health insurance	210	7	5,959	200	6,169	207
Compulsory automobile liability insurance	89,457	2,999	-	-	89,457	2,999
Total	\$148,296	\$4,971	\$148,685	\$4,984	\$296,981	\$9,955

Item	2012.12.31					
	Commission payables		Other payables		Total	
	NT\$	US\$	NT\$	US\$	NT\$	US\$
Fire insurance	\$13,092	\$451	\$6,224	\$214	\$19,316	\$665
Marine insurance	3,280	113	8,177	281	11,457	394
Land and air insurance	2,965	102	73,378	2,526	76,343	2,628
Liability insurance	8,472	292	5,488	189	13,960	481
Bonding insurance	485	17	188	7	673	24
Other property insurance	7,917	272	9,154	315	17,071	587
Accident insurance	182	6	23,540	810	23,722	816
Health insurance	39	1	4,118	142	4,157	143
Compulsory automobile liability insurance	75,939	2,614	-	-	75,939	2,614
Total	\$112,371	\$3,868	\$130,267	\$4,484	\$242,638	\$8,352

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Cathay Century Insurance Co., Ltd. and Subsidiaries

Notes to consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

Item	2012.1.1					
	Commission payables		Other payables		Total	
	NT\$	US\$	NT\$	US\$	NT\$	US\$
Fire insurance	\$15,917	\$526	\$8,061	\$266	\$23,978	\$792
Marine insurance	4,753	157	5,018	166	9,771	323
Land and air insurance	1,500	49	99,623	3,291	101,123	3,340
Liability insurance	7,053	233	5,347	177	12,400	410
Bonding insurance	321	11	41	1	362	12
Other property insurance	8,232	272	8,179	270	16,411	542
Accident insurance	215	7	44,181	1,460	44,396	1,467
Health insurance	8	-	4,175	138	4,183	138
Compulsory automobile liability insurance	97,924	3,235	-	-	97,924	3,235
Total	\$135,923	\$4,490	\$174,625	\$5,769	\$310,548	\$10,259

D. Due from (to) reinsurers and ceding companies- reinsurance

Item	2013.12.31			
	Due from reinsurers and ceding companies (Note)		Due to reinsurers and ceding companies	
	NT\$	US\$	NT\$	US\$
Non-Life Insurance Association of the R.O.C	\$56,061	\$1,879	\$211,063	\$7,075
Kang An	35,266	1,182	-	-
Best Re	31,477	1,055	9,269	311
Central Re	20,166	676	80,543	2,700
JLT	698	23	75,250	2,523
Guy Carpenter	-	-	76,301	2,558
Marsh	25,101	842	174,020	5,834
Swiss Re	4,675	157	108,591	3,640
Others	402,720	13,501	628,209	21,060
Total	576,164	19,315	1,363,246	45,701
Less: Allowance for bad debts	(14,624)	(490)	-	-
Net	\$561,540	\$18,825	\$1,363,246	\$45,701

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Notes to consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

Item	2012.12.31			
	Due from reinsurers and ceding companies (Note)		Due to reinsurers and ceding companies	
	NT\$	US\$	NT\$	US\$
Non-Life Insurance Association of the R.O.C	\$54,422	\$1,873	\$197,276	\$6,791
FP Marine	76,332	2,628	68,251	2,349
JLT	-	-	83,049	2,859
Marsh	37,557	1,293	90,672	3,121
Swiss Re	531	18	83,848	2,886
Wilson Re	26,994	929	20,931	721
Zurich	2,336	80	70,029	2,411
Others	252,010	8,676	591,045	20,346
Total	450,182	15,497	1,205,101	41,484
Less: Allowance for bad debts	(5,494)	(189)	-	-
Net	\$444,688	\$15,308	\$1,205,101	\$41,484

Item	2012.1.1			
	Due from reinsurers and ceding companies(Note)		Due to reinsurers and ceding companies	
	NT\$	US\$	NT\$	US\$
Non-Life Insurance Association of the R.O.C	\$55,981	\$1,849	\$147,763	\$4,882
Taian	33,319	1,101	5,721	189
Fubon	44,104	1,457	1,851	61
Huanan	31,318	1,035	13,855	458
FP Marine	54,730	1,808	126,004	4,163
JLT	3,126	103	72,801	2,405
Marsh	67,883	2,243	97,473	3,220
Miller	39,307	1,298	37,488	1,238
Swiss Re	2,168	72	106,862	3,530
Wilson Re	10,318	341	72,590	2,398
Zurich	17	-	87,163	2,880
Others	207,694	6,862	491,866	16,249
Total	549,965	18,169	1,261,437	41,673
Less: Allowance for bad debts	(52,091)	(1,721)	-	-
Net	\$497,874	\$16,448	\$1,261,437	\$41,673

Note: As of 31 December 2013, 31 December 2012 and 1 January 2012, the due from reinsurers and ceding companies included overdue receivables amounted to NT\$46,239 (US\$1,550) thousands, NT\$54,939 (US\$1,891) thousands and NT\$52,091 (US\$1,721) thousands, the allowance for bad debts amounted to NT\$14,624 (US\$490) thousands, NT\$5,494 (US\$189) thousands and NT\$52,091 (US\$1,721) thousands.

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Cathay Century Insurance Co., Ltd. and Subsidiaries

Notes to consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

(3) Information of management achievements

A. Acquisition cost for insurance contracts

For the year ended 31 December 2013						
NT\$						
Item	Commission expense	Agency fee	Surcharge	Reinsurance commission expense	Other cost	Total
Fire insurance	\$45,119	\$8,926	\$28,880	\$3,810	\$93,153	\$179,888
Marine insurance	9,782	2,536	7,376	3,093	48,744	71,531
Land and air insurance	67,894	3,789	-	1,727	804,316	877,726
Liability insurance	26,058	2,220	44,221	183	62,395	135,077
Bonding insurance	3,032	48	302	22	1,402	4,806
Other property insurance	15,170	1,801	241,717	7,750	77,737	344,175
Accident insurance	17,883	2,288	-	22	356,361	376,554
Health insurance	14,132	1,197	-	-	15,312	30,641
Compulsory automobile liability insurance	-	-	478,336	-	12,032	490,368
Total	\$199,070	\$22,805	\$800,832	\$16,607	\$1,471,452	\$2,510,766

For the year ended 31 December 2013						
US\$						
Item	Commission expense	Agency fee	Surcharge	Reinsurance commission expense	Other cost	Total
Fire insurance	\$1,513	\$299	\$968	\$128	\$3,123	\$6,031
Marine insurance	328	85	247	104	1,634	2,398
Land and air insurance	2,276	127	-	58	26,963	29,424
Liability insurance	874	74	1,482	6	2,092	4,528
Bonding insurance	102	2	10	-	47	161
Other property insurance	509	60	8,103	260	2,606	11,538
Accident insurance	598	77	-	1	11,947	12,623
Health insurance	474	40	-	-	513	1,027
Compulsory automobile liability insurance	-	-	16,036	-	403	16,439
Total	\$6,674	\$764	\$26,846	\$557	\$49,328	\$84,169

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(Expressed in thousands of dollars unless otherwise stated)

For the year ended 31 December 2012

Item	NT\$					
	Commission expense	Agency fee	Surcharge	Reinsurance		Total
				commission expense	Other cost	
Fire insurance	\$25,156	\$7,930	\$34,858	\$2,218	\$91,186	\$161,348
Marine insurance	9,934	2,769	7,772	3,223	69,367	93,065
Land and air insurance	36,318	2,166	-	3,211	680,747	722,442
Liability insurance	17,277	1,703	37,870	214	55,730	112,794
Bonding insurance	764	20	640	4	1,847	3,275
Other property insurance	21,072	2,736	86,035	8,258	82,891	200,992
Accident insurance	11,462	974	6	521	336,110	349,073
Health insurance	4,150	334	-	-	11,892	16,376
Compulsory automobile liability insurance	-	-	393,394	-	11,055	404,449
Total	\$126,133	\$18,632	\$560,575	\$17,649	\$1,340,825	\$2,063,814

For the year ended 31 December 2012

Item	US\$					
	Commission expense	Agency fee	Surcharge	Reinsurance		Total
				commission expense	Other cost	
Fire insurance	\$866	\$273	\$1,200	\$76	\$3,139	\$5,554
Marine insurance	342	95	268	111	2,388	3,204
Land and air insurance	1,250	74	-	111	23,434	24,869
Liability insurance	595	59	1,304	7	1,918	3,883
Bonding insurance	26	1	22	-	64	113
Other property insurance	725	94	2,962	284	2,853	6,918
Accident insurance	395	34	-	18	11,570	12,017
Health insurance	143	11	-	-	409	563
Compulsory automobile liability insurance	-	-	13,542	-	381	13,923
Total	\$4,342	\$641	\$19,298	\$607	\$46,156	\$71,044

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Notes to consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

B. Disclosure for insurance cost benefit analysis

a. Cost benefit analysis for direct underwriting

For the year ended 31 December 2013						
NT\$						
Item	Direct premium income	Net change for unearned premiums reserve	Acquisition cost for insurance contract	Insurance claims paid	Net change for claims reserve	Net gain(loss)
Fire insurance	\$2,904,496	\$80,201	\$(176,078)	\$(1,014,465)	\$427,411	\$2,221,565
Marine insurance	656,565	101,443	(68,438)	(461,897)	134,581	362,254
Land and air insurance	6,166,184	(632,003)	(875,999)	(3,399,267)	(253,414)	1,005,501
Liability insurance	1,043,375	(18,849)	(134,894)	(482,483)	(51,425)	355,724
Bonding insurance	72,404	(9,191)	(4,784)	5,855	12,619	76,903
Other property insurance	2,218,619	(302,472)	(336,425)	(808,192)	(185,643)	585,887
Accident insurance	2,517,703	18,500	(376,532)	(932,756)	(66,496)	1,160,419
Health insurance	160,344	39,223	(30,641)	(119,103)	(4,621)	45,202
Compulsory automobile liability insurance	3,488,449	(339,553)	(490,368)	(2,142,371)	(159,952)	356,205
Total	\$19,228,139	\$(1,062,701)	\$(2,494,159)	\$(9,354,679)	\$(146,940)	\$6,169,660

For the year ended 31 December 2013						
US\$						
Item	Direct premium income	Net change for unearned premiums reserve	Acquisition cost for insurance contract	Insurance claims paid	Net change for claims reserve	Net gain(loss)
Fire insurance	\$97,368	\$2,689	\$(5,903)	\$(34,008)	\$14,328	\$74,474
Marine insurance	22,010	3,401	(2,294)	(15,485)	4,512	12,144
Land and air insurance	206,711	(21,187)	(29,366)	(113,955)	(8,495)	33,708
Liability insurance	34,978	(632)	(4,522)	(16,175)	(1,724)	11,925
Bonding insurance	2,427	(308)	(161)	197	423	2,578
Other property insurance	74,376	(10,140)	(11,278)	(27,093)	(6,224)	19,641
Accident insurance	84,402	620	(12,622)	(31,269)	(2,229)	38,902
Health insurance	5,375	1,315	(1,027)	(3,993)	(155)	1,515
Compulsory automobile liability insurance	116,944	(11,383)	(16,439)	(71,819)	(5,362)	11,941
Total	\$644,591	\$(35,625)	\$(83,612)	\$(313,600)	\$(4,926)	\$206,828

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(Expressed in thousands of dollars unless otherwise stated)

For the year ended 31 December 2012

Item	NT\$					
	Direct premium income	Net change for unearned premiums reserve	Acquisition cost for insurance contract	Insurance claims paid	Net change for claims reserve	Net gain(loss)
Fire insurance	\$2,985,247	\$(304,110)	\$(159,130)	\$(1,319,195)	\$854,615	\$2,057,427
Marine insurance	837,375	16,353	(89,842)	(424,162)	(83,675)	256,049
Land and air insurance	5,046,347	(480,858)	(719,231)	(2,885,578)	(215,172)	745,508
Liability insurance	987,686	(118,926)	(112,580)	(325,192)	(189,940)	241,048
Bonding insurance	63,146	(1,826)	(3,271)	(4,116)	(6,372)	47,561
Other property insurance	1,309,640	(260,993)	(192,734)	(390,286)	(286,323)	179,304
Accident insurance	2,372,577	(19,527)	(348,552)	(1,008,751)	(61,379)	934,368
Health insurance	124,417	59,541	(16,376)	(157,658)	(34,125)	(24,201)
Compulsory automobile liability insurance	2,818,880	(50,870)	(404,449)	(1,769,121)	(342,953)	251,487
Total	\$16,545,315	\$(1,161,216)	\$(2,046,165)	\$(8,284,059)	\$(365,324)	\$4,688,551

For the year ended 31 December 2012

Item	US\$					
	Direct premium income	Net change for unearned premiums reserve	Acquisition cost for insurance contract	Insurance claims paid	Net change for claims reserve	Net gain(loss)
Fire insurance	\$102,762	\$(10,469)	\$(5,478)	\$(45,411)	\$29,419	\$70,823
Marine insurance	28,825	563	(3,093)	(14,601)	(2,880)	8,814
Land and air insurance	173,712	(16,553)	(24,758)	(99,331)	(7,407)	25,663
Liability insurance	34,000	(4,094)	(3,876)	(11,194)	(6,538)	8,298
Bonding insurance	2,174	(63)	(113)	(142)	(219)	1,637
Other property insurance	45,082	(8,984)	(6,634)	(13,435)	(9,856)	6,173
Accident insurance	81,672	(672)	(11,999)	(34,725)	(2,113)	32,163
Health insurance	4,283	2,050	(563)	(5,427)	(1,175)	(832)
Compulsory automobile liability insurance	97,036	(1,751)	(13,923)	(60,899)	(11,806)	8,657
Total	\$569,546	\$(39,973)	\$(70,437)	\$(285,165)	\$(12,575)	\$161,396

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Notes to consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

b. Recognized gain (loss) for reinsurance contract purchased

For the year ended 31 December 2013						
NT\$						
Item	Reinsurance premium income	Net change for unearned premiums reserve	Reinsurance commission expense	Reinsurance claims paid	Net change for claims reserve	Net (loss) gain for assumed reinsurance business
Fire insurance	\$108,304	\$2,871	\$(3,810)	\$(2,686)	\$(53,193)	\$51,486
Marine insurance	42,917	2,477	(3,093)	(56,882)	25,727	11,146
Land and air insurance	14,659	4,571	(1,727)	(10,653)	(4,904)	1,946
Liability insurance	1,106	(421)	(183)	(138)	(36)	328
Bonding insurance	1,224	(185)	(22)	(168)	21	870
Other property insurance	41,367	(14,115)	(7,750)	(15,522)	(1,817)	2,163
Accident insurance	5,791	1,405	(22)	(3,502)	2,117	5,789
Health insurance	-	-	-	-	-	-
Compulsory automobile liability insurance	283,158	(1,359)	-	(299,178)	(790)	(18,169)
Total	\$498,526	\$(4,756)	\$(16,607)	\$(388,729)	\$(32,875)	\$55,559

For the year ended 31 December 2013						
US\$						
Item	Reinsurance premium income	Net change for unearned premiums reserve	Reinsurance commission expense	Reinsurance claims paid	Net change for claims reserve	Net (loss) gain for assumed reinsurance business
Fire insurance	\$3,631	\$96	\$(128)	\$(90)	\$(1,783)	\$1,726
Marine insurance	1,439	83	(104)	(1,907)	862	373
Land and air insurance	491	153	(58)	(357)	(164)	65
Liability insurance	37	(14)	(6)	(5)	(1)	11
Bonding insurance	41	(6)	-	(6)	-	29
Other property insurance	1,387	(473)	(260)	(520)	(61)	73
Accident insurance	194	47	(1)	(117)	71	194
Health insurance	-	-	-	-	-	-
Compulsory automobile liability insurance	9,492	(46)	-	(10,029)	(26)	(609)
Total	\$16,712	\$(160)	\$(557)	\$(13,031)	\$(1,102)	\$1,862

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Notes to consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

For the year ended 31 December 2012

NT\$

Item	Reinsurance premium income	Net change for unearned premiums reserve	Reinsurance commission expense	Reinsurance claims paid	Net change for claims reserve	Net (loss)
						gain for assumed reinsurance business
Fire insurance	\$99,597	\$(16,375)	\$(2,218)	\$(4,895)	\$1,490	\$77,599
Marine insurance	39,975	(16,009)	(3,223)	3,465	(67,294)	(43,086)
Land and air insurance	20,081	(7,874)	(3,211)	(24,184)	(3,501)	(18,689)
Liability insurance	663	(54)	(214)	(184)	1,143	1,354
Bonding insurance	1,186	(140)	(4)	(357)	(10)	675
Other property insurance	45,274	(894)	(8,258)	(9,980)	2,874	29,016
Accident insurance	8,072	21,896	(521)	(13,474)	(2,428)	13,545
Health insurance	-	-	-	-	114	114
Compulsory automobile liability insurance	280,083	(4,834)	-	(262,057)	(21,473)	(8,281)
Total	\$494,931	\$(24,284)	\$(17,649)	\$(311,666)	\$(89,085)	\$52,247

For the year ended 31 December 2012

US\$

Item	Reinsurance premium income	Net change for unearned premiums reserve	Reinsurance commission expense	Reinsurance claims paid	Net change for claims reserve	Net (loss)
						gain for assumed reinsurance business
Fire insurance	\$3,429	\$(563)	\$(76)	\$(168)	\$51	\$2,673
Marine insurance	1,376	(551)	(111)	119	(2,316)	(1,483)
Land and air insurance	691	(271)	(111)	(833)	(121)	(645)
Liability insurance	23	(2)	(7)	(6)	39	47
Bonding insurance	41	(5)	-	(12)	-	24
Other property insurance	1,558	(31)	(284)	(344)	99	998
Accident insurance	278	754	(18)	(464)	(84)	466
Health insurance	-	-	-	-	4	4
Compulsory automobile liability insurance	9,641	(167)	-	(9,021)	(739)	(286)
Total	\$17,037	\$(836)	\$(607)	\$(10,729)	\$(3,067)	\$1,798

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c. Recognized gain (loss) for reinsurance contract purchased

For the year ended 31 December 2013

Item	NT\$					
	Reinsurance expense	Net change	Reinsurance commission earned	Claims	Net change for claims reserve ceded	Net loss (gain) for reinsurance ceded
		for unearned premiums reserve ceded		recovered from reinsurers		
Fire insurance	\$1,879,554	\$(44,094)	\$(132,720)	\$(354,524)	\$245,823	\$1,594,039
Marine insurance	476,225	103,972	(62,408)	(337,863)	187,704	367,630
Land and air insurance	297,904	(20,302)	(61,209)	(108,120)	(24,475)	83,798
Liability insurance	338,876	7,813	(93,267)	(138,615)	(10,713)	104,094
Bonding insurance	38,672	(9,791)	(7,866)	11,856	5,093	37,964
Other property insurance	432,999	40,706	(68,778)	(89,909)	(23,500)	291,518
Accident insurance	145,979	13,353	(43,171)	(65,656)	4,951	55,456
Health insurance	513	997	(182)	(160)	780	1,948
Compulsory automobile liability insurance	835,549	(35,896)	-	(825,404)	(22,123)	(47,874)
Total	\$4,446,271	\$56,758	\$(469,601)	\$(1,908,395)	\$363,540	\$2,488,573

For the year ended 31 December 2013

Item	US\$					
	Reinsurance expense	Net change	Reinsurance commission earned	Claims	Net change for claims reserve ceded	Net loss (gain) for reinsurance ceded
		for unearned premiums reserve ceded		recovered from reinsurers		
Fire insurance	\$63,009	\$(1,478)	\$(4,449)	\$(11,885)	\$8,241	\$53,438
Marine insurance	15,965	3,485	(2,092)	(11,326)	6,292	12,324
Land and air insurance	9,987	(681)	(2,052)	(3,625)	(821)	2,808
Liability insurance	11,361	262	(3,127)	(4,647)	(359)	3,490
Bonding insurance	1,296	(328)	(264)	398	171	1,273
Other property insurance	14,516	1,365	(2,305)	(3,014)	(788)	9,774
Accident insurance	4,893	447	(1,447)	(2,201)	167	1,859
Health insurance	17	33	(6)	(5)	26	65
Compulsory automobile liability insurance	28,010	(1,203)	-	(27,670)	(742)	(1,605)
Total	\$149,054	\$1,902	\$(15,742)	\$(63,975)	\$12,187	\$83,426

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(Expressed in thousands of dollars unless otherwise stated)

For the year ended 31 December 2012

Item	NT\$					
	Reinsurance expense	Net change for unearned premiums reserve ceded	Reinsurance commission earned	Claims recovered from reinsurers	Net change for claims reserve ceded	Net loss (gain) for reinsurance ceded
Fire insurance	\$1,816,933	\$(188,202)	\$(117,309)	\$(635,370)	\$586,924	\$1,462,976
Marine insurance	669,899	10,579	(99,571)	(216,764)	(172,707)	191,436
Land and air insurance	223,738	(8,848)	(40,092)	(129,925)	(30,304)	14,569
Liability insurance	352,536	(54,420)	(93,372)	(82,613)	(41,749)	80,382
Bonding insurance	26,895	(2,431)	(5,074)	(7,009)	(3,821)	8,560
Other property insurance	396,432	(22,319)	(67,490)	(66,411)	(37,940)	202,272
Accident insurance	166,776	(10,732)	(40,382)	(90,722)	(5,378)	19,562
Health insurance	1,950	1,264	(679)	(1,110)	(1,341)	84
Compulsory automobile liability insurance	771,320	(20,370)	-	(696,501)	(137,201)	(82,752)
Total	\$4,426,479	\$(295,479)	\$(463,969)	\$(1,926,425)	\$156,483	\$1,897,089

For the year ended 31 December 2012

Item	US\$					
	Reinsurance expense	Net change for unearned premiums reserve ceded	Reinsurance commission earned	Claims recovered from reinsurers	Net change for claims reserve ceded	Net loss (gain) for reinsurance ceded
Fire insurance	\$62,545	\$(6,479)	\$(4,038)	\$(21,871)	\$20,204	\$50,361
Marine insurance	23,060	364	(3,428)	(7,462)	(5,945)	6,589
Land and air insurance	7,702	(304)	(1,380)	(4,473)	(1,043)	502
Liability insurance	12,135	(1,873)	(3,214)	(2,844)	(1,437)	2,767
Bonding insurance	926	(84)	(175)	(241)	(132)	294
Other property insurance	13,647	(768)	(2,323)	(2,286)	(1,306)	6,964
Accident insurance	5,741	(369)	(1,390)	(3,123)	(185)	674
Health insurance	67	43	(23)	(38)	(46)	3
Compulsory automobile liability insurance	26,551	(701)	-	(23,976)	(4,723)	(2,849)
Total	\$152,374	\$(10,171)	\$(15,971)	\$(66,314)	\$5,387	\$65,305

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Cathay Century Insurance Co., Ltd. and Subsidiaries

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(4) Sensitivity of insurance risk

A. The Company

Insurance type	Premium income		Expected loss ratio	The impact to profit and loss when the expected loss ratio increases 5%			
				Before reinsurance		After reinsurance	
	NT\$	US\$		NT\$	US\$	NT\$	US\$
Fire insurance	\$2,581,363	\$86,536	64.05	\$129,068	\$4,327	\$75,664	\$2,537
Marine insurance	610,530	20,467	63.32	30,527	1,023	8,246	276
Land and air insurance	6,124,428	205,311	65.17	306,221	10,266	195,703	6,561
Liability insurance	769,757	25,805	67.98	38,488	1,290	21,792	731
Bonding insurance	69,528	2,331	68.63	3,476	117	469	16
Other property insurance	761,205	25,518	62.89	38,060	1,276	18,820	631
Accident insurance	2,511,653	84,199	72.35	125,583	4,210	87,845	2,945
Health insurance	160,344	5,375	62.79	8,017	269	5,014	168
Compulsory automobile liability insurance	3,027,440	101,490	NA	NA	NA	NA	NA

Note: Fire insurance does not include long-term fire insurance.

The chart above shows that with every 5% increase of the expected loss rate of every insurance contract of the company, certain influence will be imposed upon revenue; however, the influence has been mitigated through the arrangement of reinsurance to obtain the effect of risk diversification.

B. Cathay Insurance (China)

Insurance type	Premium income		The impact to profit and loss when the expected loss ratio increases 5%			
			Before reinsurance		After reinsurance	
	NT\$	US\$	NT\$	US\$	NT\$	US\$
Fire insurance	\$271,122	\$9,089	\$13,556	\$454	\$6,499	\$218
Marine insurance	41,346	1,386	2,067	69	1,552	52
Liability insurance	271,196	9,091	13,560	455	7,932	266
Bonding insurance	2,877	96	144	5	111	3
Other property insurance	1,446,457	48,490	72,323	2,424	71,953	2,412
Compulsory automobile liability insurance	461,010	15,455	23,050	773	23,050	773

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Cathay Century Insurance Co., Ltd. and Subsidiaries

Notes to consolidated financial statements (continued)

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The above chart shows that with every 5% increase in the ending loss rate of every insurance contract of Cathay Insurance (China), certain influence will be imposed upon revenue; however, the influence has been mitigated through the arrangement of reinsurance to obtain the effect of risk diversification.

(5) Concentration Risk

A. The Company

a. Situations that might cause concentration of insurance risk :

I. Single insurance contract or few related contracts

For the year ended 31 December 2013, the Company will undertake a business with infrequent but enormous losses only if all risks are evaluated by the underwriting department based on underwriting guidelines, or are discussed by an ad hoc meeting.

II. Exposure to unanticipated in trend

For the year ended 31 December 2013, the loss rates of the rest insurance categories are still within reasonable range.

III. Material lawsuit or legal risks that could lead to huge losses in a single contract or have a broad effect on several contracts

“Regulations for Assisting Lawsuit Cases of Cathay Century Insurance” is set up to safeguard the rights of the company and the insured and to implement process control of lawsuit cases of insurance claim. In addition, each compliance department of the company will appoint staff to be responsible of compliance matters, so that possible legal risk is minimized. For the year ended 31 December 2013, no material lawsuit or legal risks has taken place.

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Notes to consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

IV. Correlation and mutual influence between different risks

In case of a catastrophe, beside huge sum of claim of the insured case, other risks such as market risk, credit risk, liquidity risk, can also be derived. To avoid the operation of the company being severely endangered by these derived risks, the company has established “Operation standards under crisis” that set up crisis team in reaction to the event. The team will execute emergent tasks such as resource coordination and fund procurement to protect the rights of the insured and the company and to guard financial order. For the year ended 31 December 2013, there is no catastrophe has taken place.

V. When a certain key variable has approached significant non-linear relationship with future cash flow which could dramatically influence its performance

Since the 3rd stage of liberalization of property insurance fee took into effect, the company has conducted regular fee reviews on car insurance, fire insurance, and residential fire insurance in accordance with regulation. Fee will be raised when actual loss rate exceeds expected loss rate by a certain percentage to avoid worsening of further losses. In addition, from time to time related departments would observe the change in trend for loss rates of different product categories and adjust pricing and coverage in a timely manner to effectively lower insurance risk.

VI. Concentration risks in geographic regions and operating segments

The Company's catastrophe insurance for earthquakes and floods are centralize in the areas of Taipei, Taoyuan, Hsinchu, Chiayi, Tainan, Kaohsiung and Pingtung.

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Notes to consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

b. Following table summarizes the concentration risk of the Company before and after reinsurance by types of insurance:

Insurance type	For the year ended 31 December 2013 (NT\$)				For the year ended 31 December 2013 (US\$)			
	Direct Written premiums income	Reinsurance premium income	Premiums ceded to reinsurers	Net premiums income	Direct Written premiums income	Reinsurance premium income	Premiums ceded to reinsurers	Net premiums income
Automobile insurance	\$10,138,571	\$286,735	\$1,032,529	\$9,392,777	\$339,878	\$9,613	\$34,614	\$314,877
Fire insurance	2,601,993	95,982	1,680,131	1,017,844	87,228	3,218	56,324	34,122
Marine insurance	697,306	47,945	556,919	188,332	23,376	1,607	18,670	6,313
Engineering insurance	597,774	16,243	345,457	268,560	20,039	545	11,581	9,003
Health and injury insurance	1,459,908	5,384	124,731	1,340,561	48,941	180	4,181	44,940
Other insurance	1,115,218	14,278	343,149	786,347	37,386	478	11,503	26,361
Total	\$16,610,770	\$466,567	\$4,082,916	\$12,994,421	\$556,848	\$15,641	\$136,873	\$435,616

c. Disclosure the prior management performance in the risk, which had huge effect but relative low occurrence frequency, to help financial statement user to evaluate the uncertainty of this risk related cash flow.

Catastrophes such as earthquake, typhoon, and flood, will bring of influence is more huge. The greatest loss rate for such catastrophes for the company in the past would be the 2010 Typhoon Fanatic and the fire broke out in Formosa Plastic Group. Nevertheless, due to proper arrangement of reinsurance and profit from investment, before-tax profit for the year still came out at 342 millions.

The company in order to control the occurrence of low frequency, but will affect greatly the risk of an event, the event has special coverage for natural disasters, the subject of risk assessment and loss prevention seminars are held regularly to help customers reduce the incidence of disasters.

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Notes to consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

B. Cathay Insurance (China)

a. Situations that might cause to the concentration of insurance risk :

I. The exposure of unanticipated change in trend

Cathay Insurance (China) reduces the impact of unexpected risk changes on daily operating activities by formulating intensive underwriting and claim policy, entering into proper reinsurance agreements and inspecting and analyzing claims data periodically.

II. The correlation and cross effect between different risks

When significant incidents happened, Cathay Century (China) may face huge claim loss for the insured cases or the impairment loss of intangible or tangible assets. It may also create risks such as market risk, credit risk, and liquidity risk and so on. To ensure the management level and related departments can rapidly handle the significant incidents; Cathay Century (China) established “Notice for Significant Incidents Handling Process”. If necessary, the general manager or assigned personnel will hold the emergency response team to ensure rights and operation of Cathay Century (China) and protect the safety of policyholders’ property. No significant incident occurred for the year ended 31 December 2013.

b. Following tables summarized the concentration before and after reinsurance by types of insurance risk of Cathay Insurance (China):

Insurance type	For the year ended 31 December 2013 (NT\$)				For the year ended 31 December 2013 (US\$)			
	Direct Written premiums income	Reinsurance premium income	Premiums ceded to reinsurers	Net premiums income	Direct Written premiums income	Reinsurance premium income	Premiums ceded to reinsurers	Net premiums income
Automobile insurance	\$1,855,348	\$11,542	\$2,053	\$1,864,837	\$62,197	\$387	\$69	\$62,515
Fire insurance	279,264	10,116	157,182	132,198	9,362	339	5,269	4,432
Marine insurance	41,346	6,002	16,312	31,036	1,386	202	547	1,041
Engineering insurance	21,144	1,473	12,437	10,180	709	49	417	341
Health and injury insurance	-	21	-	21	-	1	-	1
Other insurance	296,905	-	113,737	183,168	9,953	-	3,813	6,140
Total	\$2,494,007	\$29,154	\$301,721	\$2,221,440	\$83,607	\$978	\$10,115	\$74,470

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(Expressed in thousands of dollars unless otherwise stated)

(6) Claim development table

A. The company

Underwriting Year (NT\$)	2008.1.1-	2009.1.1-	2010.1.1-	2011.1.1-	2012.1.1-	2013.1.1-	Total
	2008.12.31	2009.12.31	2010.12.31	2011.12.31	2012.12.31	2013.12.31	
Estimate of cumulative claims incurred:							
At end of underwriting year	\$3,062,273	\$3,322,792	\$3,931,646	\$5,408,275	\$4,851,463	\$5,773,901	
One year later	4,080,849	4,039,173	4,872,374	5,667,748	5,687,982		
Two year later	4,184,209	4,142,479	4,895,061	5,171,294			
Three year later	4,048,332	4,178,118	6,227,365				
Four year later	4,058,322	4,142,281					
Five year later	4,788,529						
Estimate of cumulative claims incurred	4,788,529	4,142,281	6,227,365	5,171,294	5,687,982	5,773,901	31,791,352
Cumulative payment to date	4,645,484	4,068,028	5,897,493	5,019,223	5,201,686	3,359,505	28,191,419
Subtotal	143,045	74,253	329,872	152,071	486,296	2,414,396	3,599,933
Reconciliation	-	-	-	-	-	63,764	63,764
Recorded in balance sheet	\$143,045	\$74,253	\$329,872	\$152,071	\$486,296	\$2,478,160	\$3,663,697

Underwriting Year (US\$)	2008.1.1-	2009.1.1-	2010.1.1-	2011.1.1-	2012.1.1-	2013.1.1-	Total
	2008.12.31	2009.12.31	2010.12.31	2011.12.31	2012.12.31	2013.12.31	
Estimate of cumulative claims incurred:							
At end of underwriting year	\$102,657	\$111,391	\$131,802	\$181,303	\$162,637	\$193,560	
One year later	136,804	135,406	163,338	190,002	190,680		
Two year later	140,268	138,870	164,099	173,359			
Three year later	135,713	140,064	208,761				
Four year later	136,048	138,864					
Five year later	160,527						
Estimate of cumulative claims incurred	160,527	138,864	208,761	173,359	190,680	193,560	1,065,751
Cumulative payment to date	155,732	136,374	197,703	168,261	174,378	112,621	945,069
Subtotal	4,795	2,490	11,058	5,098	16,302	80,939	120,682
Reconciliation	-	-	-	-	-	2,137	2,137
Recorded in balance sheet	\$4,795	\$2,490	\$11,058	\$5,098	\$16,302	\$83,076	\$122,819

Note: The upper part of this chart is to explain the amount of claim for property insurance of each underwriting year estimated through time.

The upper table excluding claim reserve of compulsory automobile liability insurance NT\$828,004 (US\$27,758) thousands and assumed reinsurance (except compulsory automobile liability insurance) NT\$268,301 (US\$8,994) thousands.

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Notes to consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

B. Cathay Insurance (China)

NT\$	For the first quarter of						Total
	2008.1.1- 2008.12.31	2009.1.1- 2009.12.31	2010.1.1- 2010.12.31	2011.1.1- 2011.12.31	2012.1.1- 2012.12.31	2013.1.1- 2013.12.31	
Estimated accumulation amount of claim							
As to 2008/12/31	\$2,708						
As to 2009/12/31	2,580	\$157,116					
As to 2010/12/31	2,576	150,988	\$332,803				
As to 2011/12/31	2,604	147,947	298,877	\$361,592			
As to 2012/12/31	1,353	128,429	298,902	323,840	\$1,005,815		
As to 2013/12/31	1,353	128,430	298,902	340,842	844,933	\$1,470,741	
Estimated accumulation of claim	1,353	128,430	298,902	340,842	844,933	1,470,741	\$3,085,201
Accumulated claim paid	1,353	128,294	296,429	315,413	684,874	587,157	2,013,520
Subtotal	-	136	2,473	25,429	160,059	883,584	1,071,681
Indirect claim expense, discount and risk margin						51,463	51,463
Recognized amount on balance sheet							<u>\$1,123,144</u>

US\$	For the first quarter of						Total
	2008.1.1- 2008.12.31	2009.1.1- 2009.12.31	2010.1.1- 2010.12.31	2011.1.1- 2011.12.31	2012.1.1- 2012.12.31	2013.1.1- 2013.12.31	
Estimated accumulation amount of claim							
As to 2008/12/31	\$91						
As to 2009/12/31	86	\$5,267					
As to 2010/12/31	86	5,062	\$11,157				
As to 2011/12/31	87	4,960	10,019	\$12,122			
As to 2012/12/31	45	4,305	10,020	10,856	\$33,718		
As to 2013/12/31	45	4,306	10,020	11,426	28,325	\$49,304	
Estimated accumulation of claim	45	4,306	10,020	11,426	28,325	49,304	\$103,426
Accumulated claim paid	45	4,301	9,937	10,574	22,959	19,684	67,500
Subtotal	-	5	83	852	5,366	29,620	35,926
Indirect claim expense, discount and risk margin						1,725	1,725
Recognized amount on balance sheet							<u>\$37,651</u>

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C. Cathay Insurance (Vietnam)

As Cathay Century (Vietnam) is still in initial stage, there is no historical data for loss trends. Cathay Century (Vietnam) has adopted the suggestion from Vietnamese Ministry of Finance 2842/BTC/QCBH for loss reserving method with incurred but not reported claims, which is calculated at a rate of 5% of its annual retained premiums.

(7) Financial instruments

Financial instruments (NT\$)	2013.12.31	2012.12.31	2012.1.1
<u>Financial assets</u>			
Financial assets at fair value through profit or loss:			
Held for trading	\$1,312,025	\$437,273	\$619,455
Available-for-sale financial assets	7,234,902	8,404,492	5,897,618
Held-to-maturity investments	1,955,937	2,512,011	2,408,714
Loans and receivables:			
Cash and cash equivalents (exclude cash on hand)	8,185,821	5,669,259	6,919,027
Bond investments with no active market	2,053,740	1,323,270	1,192,997
Receivables	3,725,513	3,291,611	2,909,396
Subtotal	<u>13,965,074</u>	<u>10,284,140</u>	<u>11,021,420</u>
Derivative financial assets for hedging	10,022	17,134	28,521
Total	<u>\$24,477,960</u>	<u>\$21,655,050</u>	<u>\$19,975,728</u>
<u>Financial liabilities</u>			
Financial liabilities measured at amortized cost:			
Payables	\$2,622,538	\$2,223,005	\$2,101,262
Financial liabilities at fair value through profit or loss:			
Held for trading	28,352	-	45,000
Preferred stock liability	1,000,000	1,000,000	1,000,000
Total	<u>\$3,650,890</u>	<u>\$3,223,005</u>	<u>\$3,146,262</u>

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Financial instruments (US\$)	2013.12.31	2012.12.31	2012.1.1
<u>Financial assets</u>			
Financial assets at fair value through profit or loss:			
Held for trading	\$43,983	\$15,053	\$20,464
Available-for-sale financial assets	242,538	289,311	194,834
Held-to-maturity investments	65,570	86,472	79,574
Loans and receivables:			
Cash and cash equivalents (exclude cash on hand)	274,416	195,155	228,576
Bond investments with no active market	68,848	45,552	39,412
Receivables	124,891	113,308	96,115
Subtotal	<u>468,155</u>	<u>354,015</u>	<u>364,103</u>
Derivative financial assets for hedging	336	590	942
Total	<u><u>\$820,582</u></u>	<u><u>\$745,441</u></u>	<u><u>\$659,917</u></u>
<u>Financial liabilities</u>			
Financial liabilities measured at amortized cost:			
Payables	\$87,917	\$76,523	\$69,417
Financial liabilities at fair value through profit or loss:			
Held for trading	950	-	1,487
Preferred stock liability	33,523	34,424	33,036
Total	<u><u>\$122,390</u></u>	<u><u>\$110,947</u></u>	<u><u>\$103,940</u></u>

8. Financial risk management objectives and policies

Non-derivative financial instruments the Consolidated Company held to adjust operating cash flow including cash and equivalents and investments. The Consolidated Company held other financial assets and liabilities, including note receivable, premiums receivable & claim payable, due to reinsurers and ceding companies, reinsurance premiums receivables & payable and secured loans.

In addition, the Consolidated Company holds derivative financial instruments, including futures options contracts, forward contracts and swaps to avoid share price risk, foreign exchange risk and interest rate risk. Cathay Century does not engage in derivatives transactions for trading purposes.

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(Expressed in thousands of dollars unless otherwise stated)

The Consolidated Company's financial instruments are mainly exposed to market risk, credit risk and liquidity risk. The risk management policies approved by board of directors are as follows:

(1) Market risk

A. Foreign currency risk

The Consolidated Company is exposed to foreign exchange risk from US and NT dollars exchanges for investing in foreign special purpose money trust. Since the amount of investment is significant, the Consolidated Company engage in forward foreign exchange contracts for hedging purposes.

The Consolidated Company is further exposed to exchange rate risk for engaging in reinsurance business involving transactions denominated in non-functional currency. Because this type of transaction usually has a relatively shorter collection period, the exchange rate fluctuations are not significant. The Consolidated Company do not engage in hedging in relation to this type of transaction.

The Consolidated Company's self-evaluation showed that the terms of the hedging instrument and the hedged items are the same, so as to maximize the effectiveness of the hedge.

B. Interest rate risk

Interest rate risk results from changes in the market interest rates which cause the fair value of financial instruments or the future cash flow to fluctuate, the Consolidated Company's interest rate risk primarily results from floating rate investments classified as available-for-sale financial assets and fixed rate preferred shares liabilities.

C. Equity price risk

The Consolidated Company hold equity securities of local and foreign listed companies. Their prices are affected by uncertainties about the future values of the investment securities. Equity securities of listed companies held by the Consolidated Company are classified under held for trading financial assets or available-for-sale financial assets. The Consolidated Company manage the equity price risk through diversification and placing limits on individual and total equity instruments.

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(2) Credit risk

A. Credit risk management policies

The Consolidated Company trade only with established and creditworthy third parties. The Consolidated Company's policy is that all customers who trade on credit terms are subject to credit verification procedures, and that premiums receivable and notes receivable collections are monitored on an ongoing basis. Therefore, the Consolidated Company's bad debt is insignificant. On the other hand, in the event a counterparty's creditworthiness deteriorates, the Consolidated Company will suspend the related contracts and resume exercising relevant rights and obligations when transaction status is restored.

The Consolidated Company's secured lending operations must be approved and verified by performing credit verification procedures, and obtain real property security provided by the counterparty. In the event the counterparty's creditworthiness deteriorate, the Consolidated Company may exercise under their own discretion the relevant security rights upon presentation, to protect the Consolidated Company's interests.

The Consolidated Company's credit risk exposure of financial transactions including: issuer risk, counterparty risk and the credit risk of underlying assets.

- I. Issuer risk is the risk that the issuer of the debt instrument held by the Consolidated Company or banks with which the Consolidated Company maintain deposits fail to deliver in accordance with the agreement due to default, bankruptcy or settlement, and the Consolidated Company incur financial losses as a result.
- II. Counterparty risk is the risk that a counterparty of the Consolidated Company fails to deliver as obligated before the settlement date which then cause losses to the Consolidated Company.
- III. Credit risk of the underlying assets is the risk of loss due to weakened credit quality, increase in credit premium, credit rating downgrade or default of underlying assets linked to a financial instrument.

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B. Credit concentration risk analysis

I. The amounts of credit risk exposure of Consolidated Company's financial assets are as follows:

Financial assets	The amount of credit risk exposure - by area					
	31 December 2013 (NT\$)					
	Taiwan	New Zealand and Australia	Europe	Americas	Emerging market and others	Total
Cash and cash equivalents	\$4,415,469	\$10	\$7,946	\$990,830	\$2,771,566	\$8,185,821
Financial assets at fair value through profit or loss	1,172,111	-	-	-	139,914	1,312,025
Available-for-sale financial assets	5,927,566	-	-	25,117	1,282,219	7,234,902
Derivative financial assets for hedging	10,022	-	-	-	-	10,022
Bond investments with no active market	850,000	-	321,383	300,039	582,318	2,053,740
Held-to-maturity investments	-	-	-	1,668,787	287,150	1,955,937
Total	\$12,375,168	\$10	\$329,329	\$2,984,773	\$5,063,167	\$20,752,447
Each area percentage	59.63%	0.00%	1.59%	14.38%	24.40%	100.00%

Financial assets	The amount of credit risk exposure - by area					
	31 December 2013 (US\$)					
	Taiwan	New Zealand and Australia	Europe	Americas	Emerging market and others	Total
Cash and cash equivalents	\$148,021	\$-	\$267	\$33,216	\$92,912	\$274,416
Financial assets at fair value through profit or loss	39,293	-	-	-	4,690	43,983
Available-for-sale financial assets	198,712	-	-	842	42,984	242,538
Derivative financial assets for hedging	336	-	-	-	-	336
Bond investments with no active market	28,495	-	10,774	10,058	19,521	68,848
Held-to-maturity investments	-	-	-	55,943	9,627	65,570
Total	\$414,857	\$-	\$11,041	\$100,059	\$169,734	\$695,691
Each area percentage	59.63%	0.00%	1.59%	14.38%	24.40%	100.00%

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Financial assets	The amount of credit risk exposure - by area					
	31 December 2012 (NT\$)					
	Taiwan	New Zealand and Australia	Europe	Americas	Emerging market and others	Total
Cash and cash equivalents	\$4,843,007	\$54	\$14,840	\$110,172	\$701,186	\$5,669,259
Financial assets at fair value through profit or loss	385,460	-	-	-	51,813	437,273
Available-for-sale financial assets	4,863,917	-	-	284,143	3,256,432	8,404,492
Derivative financial assets for hedging	17,134	-	-	-	-	17,134
Bond investments with no active market	900,000	-	-	-	423,270	1,323,270
Held-to-maturity investments	-	-	-	2,512,011	-	2,512,011
Total	\$11,009,518	\$54	\$14,840	\$2,906,326	\$4,432,701	\$18,363,439
Each area percentage	59.95%	0.00%	0.08%	15.83%	24.14%	100.00%

Financial assets	The amount of credit risk exposure - by area					
	31 December 2012 (US\$)					
	Taiwan	New Zealand and Australia	Europe	Americas	Emerging market and others	Total
Cash and cash equivalents	\$166,713	\$2	\$511	\$3,792	\$24,137	\$195,155
Financial assets at fair value through profit or loss	13,269	-	-	-	1,784	15,053
Available-for-sale financial assets	167,432	-	-	9,781	112,098	289,311
Derivative financial assets for hedging	590	-	-	-	-	590
Bond investments with no active market	30,981	-	-	-	14,571	45,552
Held-to-maturity investments	-	-	-	86,472	-	86,472
Total	\$378,985	\$2	\$511	\$100,045	\$152,590	\$632,133
Each area percentage	59.95%	0.00%	0.08%	15.83%	24.14%	100.00%

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Financial assets	The amount of credit risk exposure - by area					
	1 January 2012 (NT\$)					
	Taiwan	New Zealand and Australia	Europe	Americas	Emerging market and others	Total
Cash and cash equivalents	\$5,943,885	\$-	\$9	\$310,066	\$665,067	\$6,919,027
Financial assets at fair value through profit or loss	454,960	-	-	-	164,495	619,455
Available-for-sale financial assets	4,999,742	-	-	25,163	872,713	5,897,618
Derivative financial assets for hedging	28,521	-	-	-	-	28,521
Bond investments with no active market	900,000	-	-	-	292,997	1,192,997
Held-to-maturity investments	-	-	-	2,408,714	-	2,408,714
Total	\$12,327,108	\$-	\$9	\$2,743,943	\$1,995,272	\$17,066,332
Each area percentage	72.23%	0.00%	0.00%	16.08%	11.69%	100.00%

Financial assets	The amount of credit risk exposure - by area					
	1 January 2012 (US\$)					
	Taiwan	New Zealand and Australia	Europe	Americas	Emerging market and others	Total
Cash and cash equivalents	\$196,362	\$-	\$-	\$10,243	\$21,971	\$228,576
Financial assets at fair value through profit or loss	15,030	-	-	-	5,434	20,464
Available-for-sale financial assets	165,172	-	-	831	28,831	194,834
Derivative financial assets for hedging	942	-	-	-	-	942
Bond investments with no active market	29,732	-	-	-	9,680	39,412
Held-to-maturity investments	-	-	-	79,574	-	79,574
Total	\$407,238	\$-	\$-	\$90,648	\$65,916	\$563,802
Each area percentage	72.23%	0.00%	0.00%	16.08%	11.69%	100.00%

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C. Credit risk quality analysis

I. Credit quality classifications of the Consolidated Company's financial assets are as follows:

Financial assets	Credit quality of financial assets				
	31 December 2013 (NT\$)				
	Normal assets		Past due but not impaired	Impaired	Total
	Investment level	Non-investment level			
Cash and cash equivalents	\$8,185,821	\$-	\$-	\$-	\$8,185,821
Financial assets at fair value through profit or loss	1,312,025	-	-	-	1,312,025
Available-for-sale financial assets	7,234,902	-	-	-	7,234,902
Derivative financial assets for hedging	10,022	-	-	-	10,022
Bond investments with no active market	2,053,740	-	-	-	2,053,740
Held-to-maturity investments	1,955,937	-	-	-	1,955,937
Total	\$20,752,447	\$-	\$-	\$-	\$20,752,447

Financial assets	Credit quality of financial assets				
	31 December 2013 (US\$)				
	Normal assets		Past due but not impaired	Impaired	Total
	Investment level	Non-investment level			
Cash and cash equivalents	\$274,416	\$-	\$-	\$-	\$274,416
Financial assets at fair value through profit or loss	43,983	-	-	-	43,983
Available-for-sale financial assets	242,538	-	-	-	242,538
Derivative financial assets for hedging	336	-	-	-	336
Bond investments with no active market	68,848	-	-	-	68,848
Held-to-maturity investments	65,570	-	-	-	65,570
Total	\$695,691	\$-	\$-	\$-	\$695,691

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Financial assets	Credit quality of financial assets				
	31 December 2012 (NT\$)				
	Normal assets		Past due but not impaired	Impaired	Total
	Investment level	Non-investment level			
Cash and cash equivalents	\$5,669,259	\$-	\$-	\$-	\$5,669,259
Financial assets at fair value through profit or loss	437,273	-	-	-	437,273
Available-for-sale financial assets	8,404,492	-	-	-	8,404,492
Derivative financial assets for hedging	17,134	-	-	-	17,134
Bond investments with no active market	1,323,270	-	-	-	1,323,270
Held-to-maturity investments	2,512,011	-	-	-	2,512,011
Total	\$18,363,439	\$-	\$-	\$-	\$18,363,439

Financial assets	Credit quality of financial assets				
	31 December 2012 (US\$)				
	Normal assets		Past due but not impaired	Impaired	Total
	Investment level	Non-investment level			
Cash and cash equivalents	\$195,155	\$-	\$-	\$-	\$195,155
Financial assets at fair value through profit or loss	15,053	-	-	-	15,053
Available-for-sale financial assets	289,311	-	-	-	289,311
Derivative financial assets for hedging	590	-	-	-	590
Bond investments with no active market	45,552	-	-	-	45,552
Held-to-maturity investments	86,472	-	-	-	86,472
Total	\$632,133	\$-	\$-	\$-	\$632,133

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Financial assets	Credit quality of financial assets				
	1 January 2012 (NT\$)				
	Normal assets		Past due but not impaired	Impaired	Total
	Investment level	Non-investment level			
Cash and cash equivalents	\$6,919,027	\$-	\$-	\$-	\$6,919,027
Financial assets at fair value through profit or loss	619,455	-	-	-	619,455
Available-for-sale financial assets	5,897,618	-	-	-	5,897,618
Derivative financial assets for hedging	28,521	-	-	-	28,521
Bond investments with no active market	1,192,997	-	-	-	1,192,997
Held-to-maturity investments	2,408,714	-	-	-	2,408,714
Total	\$17,066,332	\$-	\$-	\$-	\$17,066,332

Financial assets	Credit quality of financial assets				
	1 January 2012 (US\$)				
	Normal assets		Past due but not impaired	Impaired	Total
	Investment level	Non-investment level			
Cash and cash equivalents	\$228,576	\$-	\$-	\$-	\$228,576
Financial assets at fair value through profit or loss	20,464	-	-	-	20,464
Available-for-sale financial assets	194,834	-	-	-	194,834
Derivative financial assets for hedging	942	-	-	-	942
Bond investments with no active market	39,412	-	-	-	39,412
Held-to-maturity investments	79,574	-	-	-	79,574
Total	\$563,802	\$-	\$-	\$-	\$563,802

Note: Investment level means the credit rating above BBB- and non-investment level means the credit rating less than BBB-.

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II. Secured loans

Secured loans	31 December 2013 (NT\$)							
	Neither past due nor impaired			Past due but not impaired	Impaired	Total(EIR principal)	Loss reserve	Net
	Excellent	Great	Normal					
Consumer Finance	\$124,583	\$-	\$-	\$-	\$127,966	\$252,549	\$1,563	\$250,986
Corporate Finance	60,000	-	-	-	192,596	252,596	81,061	171,535
Total	\$184,583	\$-	\$-	\$-	\$320,562	\$505,145	\$82,624	\$422,521

Secured loans	31 December 2013 (US\$)							
	Neither past due nor impaired			Past due but not impaired	Impaired	Total(EIR principal)	Loss reserve	Net
	Excellent	Great	Normal					
Consumer Finance	\$4,177	\$-	\$-	\$-	\$4,290	\$8,467	\$53	\$8,414
Corporate Finance	2,011	-	-	-	6,456	8,467	2,717	5,750
Total	\$6,188	\$-	\$-	\$-	\$10,746	\$16,934	\$2,770	\$14,164

Secured loans	31 December 2012 (NT\$)							
	Neither past due nor impaired			Past due but not impaired	Impaired	Total(EIR principal)	Loss reserve	Net
	Excellent	Great	Normal					
Consumer Finance	\$142,885	\$-	\$-	\$-	\$120,628	\$263,513	\$1,618	\$261,895
Corporate Finance	60,000	-	-	-	271,730	331,730	71,545	260,185
Total	\$202,885	\$-	\$-	\$-	\$392,358	\$595,243	\$73,163	\$522,080

Secured loans	31 December 2012 (US\$)							
	Neither past due nor impaired			Past due but not impaired	Impaired	Total(EIR principal)	Loss reserve	Net
	Excellent	Great	Normal					
Consumer Finance	\$4,919	\$-	\$-	\$-	\$4,152	\$9,071	\$56	\$9,015
Corporate Finance	2,065	-	-	-	9,354	11,419	2,462	8,957
Total	\$6,984	\$-	\$-	\$-	\$13,506	\$20,490	\$2,518	\$17,972

Secured loans	1 January 2012 (NT\$)							
	Neither past due nor impaired			Past due but not impaired	Impaired	Total(EIR principal)	Loss reserve	Net
	Excellent	Great	Normal					
Consumer Finance	\$149,245	\$-	\$-	\$-	\$116,040	\$265,285	\$1,727	\$263,558
Corporate Finance	80,000	-	-	-	224,452	304,452	16,045	288,407
Total	\$229,245	\$-	\$-	\$-	\$340,492	\$569,737	\$17,772	\$551,965

Secured loans	1 January 2012 (US\$)							
	Neither past due nor impaired			Past due but not impaired	Impaired	Total(EIR principal)	Loss reserve	Net
	Excellent	Great	Normal					
Consumer Finance	\$4,931	\$-	\$-	\$-	\$3,833	\$8,764	\$57	\$8,707
Corporate Finance	2,643	-	-	-	7,415	10,058	530	9,528
Total	\$7,574	\$-	\$-	\$-	\$11,248	\$18,822	\$587	\$18,235

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(3) Operational Risk

Operational risk is the risk of loss due to inadequate or failed internal controls, employee fraud or misconduct and management negligence. To mitigate the operational risk, the Consolidated Company adopt and implement the internal control regulations establish the information systems to accommodate the aforementioned policies.

(4) Liquidity risk

A. Definition and resource of liquidity risk

Liquidity risk includes capital liquidity risk and market liquidity risk. Capital liquidity happens when the Consolidated Company fail to raise sufficiently capital on reasonable terms and costs, leading to cash flow gap. Market liquidity risk happens when the Consolidated Company sell assets below market prices to raise sufficient capital but may suffer loss.

B. Liquidity risk management

The Consolidated Company established a capital liquidity management mechanism based on the business features and monitoring short-term cash flow. Considering the trading volume and holding position, the Consolidated Company carefully manage the market liquidity risk. Moreover, the Consolidated Company have drawn up a plan for capital requirements with respect to abnormal and emergency conditions to deal with significant liquidity risk.

Depending on the actual management need or special situation, the Consolidated Company uses models to assess cash flow risk, such as cash flow model or stress testing model.

Stress testing analysis is used to test changes of capital liquidity in the event of extreme adversity in order to ensure liquidity. Stress scenarios, include significant market volatility, a variety of credit events, unanticipated events of the financial market liquidity crunch and any other scenario which may trigger liquidity pressures. They are employed to evaluate the Consolidated Company's overall capital supply, demand and changes in cash flow gap.

In the event of cash flow gap, the will conduct an internal discussion and report the result to supervisors and the funding management department. The risk management department will take necessary measures to prevent further stressful events.

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C. The table below summarizes the maturity profile of the Consolidated Company's financial liabilities based on contractual undiscounted payments.

Liabilities	31 December 2013 (NT\$)						
	Book value	Contractual cash flow	Less than 6 months	6-12 months	1-2 years	2-5 years	5+ years
Payables	\$2,622,538	\$1,363,246	\$1,334,100	\$21,223	\$7,181	\$742	\$-
Financial liabilities at fair value through profit or loss	28,352	28,352	-	28,352	-	-	-
Preferred stock liability	1,000,000	1,000,000	-	-	-	-	1,000,000

Liabilities	31 December 2013 (US\$)						
	Book value	Contractual cash flow	Less than 6 months	6-12 months	1-2 years	2-5 years	5+ years
Payables	\$87,917	\$45,701	\$44,723	\$712	\$241	\$25	\$-
Financial liabilities at fair value through profit or loss	950	950	-	950	-	-	-
Preferred stock liability	33,523	33,523	-	-	-	-	33,523

Liabilities	31 December 2012 (NT\$)						
	Book value	Contractual cash flow	Less than 6 months	6-12 months	1-2 years	2-5 years	5+ years
Payables	\$2,223,005	\$1,205,101	\$1,182,771	\$16,771	\$3,852	\$1,707	\$-
Preferred stock liability	1,000,000	1,000,000	-	-	-	-	1,000,000

Liabilities	31 December 2012 (US\$)						
	Book value	Contractual cash flow	Less than 6 months	6-12 months	1-2 years	2-5 years	5+ years
Payables	\$76,523	\$41,484	\$40,715	\$577	\$133	\$59	\$-
Preferred stock liability	34,424	34,424	-	-	-	-	34,424

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Liabilities	1 January 2012 (NT\$)						
	Book value	Contractual cash flow	Less than 6 months	6-12 months	1-2 years	2-5 years	5+ years
Payables	\$2,101,262	\$1,261,437	\$1,237,624	\$13,092	\$9,649	\$1,072	\$-
Financial liabilities at fair value through profit or loss	45,000	45,000	-	45,000	-	-	-
Preferred stock liability	1,000,000	1,000,000	-	-	-	-	1,000,000

Liabilities	1 January 2012 (US\$)						
	Book value	Contractual cash flow	Less than 6 months	6-12 months	1-2 years	2-5 years	5+ years
Payables	\$69,417	\$41,673	\$40,886	\$433	\$319	\$35	\$-
Financial liabilities at fair value through profit or loss	1,487	1,487	-	1,487	-	-	-
Preferred stock liability	33,036	33,036	-	-	-	-	33,036

(5) Market risk analysis

Market risk is the risk of potential revenue and portfolio value reduction due to the fluctuations of market risk factors, such as exchange rates, commodity prices, interest rates, credit spreads, and stock prices.

The Consolidated Company continues to use market risk management tools such as value-at-risk and stress testing to completely and effectively measure, monitor and manage market risk.

A. Value-at-risk

Value-at-risk is used to measure the maximum potential loss of a portfolio in a certain period of time and confidence level when the market risk factors change. The Consolidated Company estimates value at risk of the following day (week or two weeks) with a 99% level of confidence.

The value-at-risk model must reasonably, completely and accurately measure the maximum potential risk to be used as the Consolidated Company's risk management model. The risk management model must conduct back testing on an ongoing basis to ensure the model can effectively measure the maximum potential risk of a financial instrument or a portfolio.

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B. Stress testing

In addition to the value-at-risk model, the Consolidated Company periodically uses stress testing to assess the potential risk of extreme incidents.

Stress testing is used to evaluate the potential impact on portfolio values when a series of financial variables undergo extreme changes.

The Consolidated Company conducts stress testing regularly on positions by simple sensitivity analysis and scenario analysis. The stress testing contains changes of various risk factors in all historical scenarios that may cause losses in an investment portfolio.

I. Simple Sensitivity

Simple sensitivity mainly measures changes in value of portfolio caused by specific risk factor.

II. Scenario Analysis

Scenario analysis measures the change in the total value of a portfolio under a stressful event. The measures include :

i. Historical scenarios

The measure selects from historical data of a certain period and adds the volatility of the risk factors selected to a given portfolio, then calculates the amount of loss.

ii. Hypothetical scenarios

Hypothetical scenario makes reasonable hypothesis with respect to possible extreme market changes and includes the risk factors related to the changes in the current portfolio to estimate the amount of loss that may incur.

The risk management department conducts stress testing regularly under historical scenario and hypothetical scenario for the company to perform risk analysis, risk alert and business management based on the stress test report.

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31 December 2013	Stress testing		
Risk factors	Variation (+/-)	Changes in profit and loss	
		NT\$	US\$
Equity price risk (Index)	-10%	\$(248,108)	\$(8,317)
Interest rate risk (Yield curve)	20bp	(70,268)	(2,356)
Foreign currency risk (Exchange rate)	USD exchange NTD devalue 1 dollar	(87,102)	(2,920)
Merchandise risk (merchandise price)	-10%	-	-

31 December 2013		Profit and loss		Equity	
		NT\$	US\$	NT\$	US\$
Foreign currency risk sensitivity	RMB appreciate 1 %	\$9,805	\$329	\$1,389	\$47
	HKD appreciate 1 %	-	-	132	4
	NTD appreciate 1 %	(12,363)	(414)	(1,116)	(37)
Interest rate risk sensitivity	Yield curve (USD) flat rises 1bp	(1,564)	(52)	(136)	(5)
	Yield curve (RMB) flat rises 1bp	(41)	(1)	(82)	(3)
	Yield curve (NTD) flat rises 1bp	(185)	(6)	(1,505)	(50)
Equity securities price sensitivity	Increase 1% in equity price	-	-	24,811	832

31 December 2012	Stress testing		
Risk factors	Variation (+/-)	Changes in profit and loss	
		NT\$	US\$
Equity price risk (Index)	-10%	\$(150,852)	\$(5,193)
Interest rate risk (Yield curve)	20bp	(63,632)	(2,190)
Foreign currency risk (Exchange rate)	USD exchange NTD devalue 1 dollar	(20,245)	(697)
Merchandise risk (merchandise price)	-10%	-	-

31 December 2012		Profit and loss		Equity	
		NT\$	US\$	NT\$	US\$
Foreign currency risk sensitivity	JPY appreciate 1 %	\$6	\$-	\$-	\$-
	RMB appreciate 1 %	8	-	598	21
	NTD appreciate 1 %	(2,997)	(103)	(1,989)	(68)
Interest rate risk sensitivity	Yield curve (USD) flat rises 1bp	(901)	(31)	(160)	(6)
	Yield curve (RMB) flat rises 1bp	-	-	(99)	(3)
	Yield curve (NTD) flat rises 1bp	(128)	(4)	(1,893)	(65)
Equity securities price sensitivity	Increase 1% in equity price	-	-	15,085	519

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(9) Fair values of financial instruments

A. The methods and assumptions applied in determining the fair value of financial instruments:

- I. The carrying amount of cash and cash equivalents, accounts receivables, and payables approximate their fair value.
- II. For financial assets and liabilities traded in an active market with standard terms and conditions, their fair value is determined based on market quotation price (including listed equity securities and bonds) at the reporting date.
- III. The fair value of derivative financial instrument is based on market quotations. For unquoted derivatives that are not options, the fair value is determined based on discounted cash flow analysis using interest rate yield curve for the contract period. Fair value of option-based derivative financial instruments is obtained using the option pricing model.
- IV. The fair value of other financial assets and liabilities is determined using discounted cash flow analysis; the interest rate and discount rate are selected with reference to those of similar financial instruments.

B. Fair value of financial instruments measured at amortized cost

Other than those listed in the table below, the carrying amount of the Consolidated Company's financial assets and liabilities measured at amortized cost approximate their fair value:

NT\$	Carrying amount as at			Fair value as at		
	2013.12.31	2012.12.31	2012.1.1	2013.12.31	2012.12.31	2012.1.1
Held-to-maturity investments						
Bonds	\$1,955,937	\$2,512,011	\$2,408,714	\$1,977,270	\$2,670,313	\$2,643,649
Bond investments with no active market	2,053,740	1,323,270	1,192,997	2,046,926	1,349,477	1,191,612
US\$	Carrying amount as at			Fair value as at		
	2013.12.31	2012.12.31	2012.1.1	2013.12.31	2012.12.31	2012.1.1
Held-to-maturity investments						
Bonds	\$65,570	\$86,472	\$79,574	\$66,285	\$91,921	\$87,336
Bond investments with no active market	68,848	45,552	39,412	68,620	46,454	39,366

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C. Fair value of recognized in balance sheet

The following table contains the fair value of financial instruments after initial recognition and the details of the three levels of fair value hierarchy:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities.

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly.

Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

Financial instruments at fair value (NT\$)	31 December 2013			
	Total	Level 1	Level 2	Level 3
<u>Non-derivative financial instruments</u>				
Assets:				
Financial assets at fair value through profit or loss				
Financial assets held for trading				
Others	\$1,312,025	\$1,312,025	\$-	\$-
Available-for-sale financial assets				
Stock	2,285,699	2,285,699	-	-
Bonds	3,470,385	3,061,845	408,540	-
Others	1,478,818	1,478,818	-	-
<u>Derivative financial instruments</u>				
Assets:				
Derivative financial assets for hedging				
IRS	10,022	-	10,022	-
Liabilities:				
Financial liabilities at fair value through profit or loss				
Forward and SWAP	28,352	-	28,352	-

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Financial instruments at fair value (US\$)	31 December 2013			
	Total	Level 1	Level 2	Level 3
<u>Non-derivative financial instruments</u>				
Assets:				
Financial assets at fair value through profit or loss				
Financial assets held for trading				
Others	\$43,983	\$43,983	\$-	\$-
Available-for-sale financial assets				
Stock	76,624	76,624	-	-
Bonds	116,339	102,643	13,696	-
Others	49,575	49,575	-	-
<u>Derivative financial instruments</u>				
Assets:				
Derivative financial assets for hedging				
IRS	336	-	336	-
Liabilities:				
Financial liabilities at fair value through profit or loss				
Forward and SWAP	950	-	950	-
Financial instruments at fair value (NT\$)	31 December 2012			
	Total	Level 1	Level 2	Level 3
<u>Non-derivative financial instruments</u>				
Assets:				
Financial assets at fair value through profit or loss				
Financial assets held for trading				
Others	\$376,694	\$376,694	\$-	\$-
Available-for-sale financial assets				
Stock	1,506,909	1,506,909	-	-
Bonds	3,609,402	3,194,963	414,439	-
Others	3,288,181	3,288,181	-	-
<u>Derivative financial instruments</u>				
Assets:				
Financial assets at fair value through profit or loss				
Forward and SWAP	60,579	-	60,579	-
Derivative financial assets for hedging				
IRS	17,134	-	17,134	-

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Financial instruments at fair value (US\$)	31 December 2012			
	Total	Level 1	Level 2	Level 3
<u>Non-derivative financial instruments</u>				
Assets:				
Financial assets at fair value through profit or loss				
Financial assets held for trading				
Others	\$12,967	\$12,967	\$-	\$-
Available-for-sale financial assets				
Stock	51,873	51,873	-	-
Bonds	124,248	109,981	14,267	-
Others	113,190	113,190	-	-
<u>Derivative financial instruments</u>				
Assets:				
Financial assets at fair value through profit or loss				
Forward and SWAP	2,086	-	2,086	-
Derivative financial assets for hedging				
IRS	590	-	590	-
Financial instruments at fair value (NT\$)	1 January 2012			
	Total	Level 1	Level 2	Level 3
<u>Non-derivative financial instruments</u>				
Assets:				
Financial assets at fair value through profit or loss				
Financial assets held for trading				
Others	\$619,455	\$619,455	\$-	\$-
Available-for-sale financial assets				
Stock	1,619,475	1,619,475	-	-
Bonds	3,397,248	3,397,248	-	-
Others	880,895	880,895	-	-
<u>Derivative financial instruments</u>				
Assets:				
Derivative financial assets for hedging				
IRS	28,521	-	28,521	-
Liabilities:				
Financial liabilities at fair value through profit or loss				
Forward and SWAP	45,000	-	45,000	-

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Financial instruments at fair value (US\$)	1 January 2012			
	Total	Level 1	Level 2	Level 3
<u>Non-derivative financial instruments</u>				
Assets:				
Financial assets at fair value through profit or loss				
Financial assets held for trading				
Others	\$20,464	\$20,464	\$-	\$-
Available-for-sale financial assets				
Stock	53,501	53,501	-	-
Bonds	112,232	112,232	-	-
Others	29,101	29,101	-	-
<u>Derivative financial instruments</u>				
Assets:				
Derivative financial assets for hedging				
IRS	942	-	942	-
Liabilities:				
Financial liabilities at fair value through profit or loss				
Forward and SWAP	1,487	-	1,487	-

During the years ended 31 December 2013 and 2012, there were no transfers between Level 1 and Level 2 fair value measurements.

D. During the years ended 31 December 2013 and 2012, there were no Level 3 fair value measurements.

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9. Related party transactions

(1) Premiums income

Name	For the year ended 31 December			
	2013		2012	
	NT\$	US\$	NT\$	US\$
Other related parties				
Cathay Life Insurance Co., Ltd.	\$108,543	\$3,639	\$111,560	\$3,840
Cathay United Bank Co., Ltd.	101,014	3,386	98,341	3,385
Cathay General Hospital	5,254	176	8,413	290
Cathay Real Estate Development Co., Ltd.	7,923	266	8,324	287
San Ching Engineering Co., Ltd.	511	17	6,054	208
Total	<u>\$223,245</u>	<u>\$7,484</u>	<u>\$232,692</u>	<u>\$8,010</u>

The premium income is according to general rate calculation.

(2) Premiums receivable

Name	2013.12.31	
	NT\$	US\$
Other related parties		
Cathay Life Insurance Co., Ltd.	\$2,390	\$80
Cathay United Bank Co., Ltd.	39,745	1,333
Total	<u>\$42,135</u>	<u>\$1,413</u>
Name	2012.12.31	
	NT\$	US\$
Other related parties		
Cathay Life Insurance Co., Ltd.	\$5,732	\$197
Cathay United Bank Co., Ltd.	4,855	167
Total	<u>\$10,587</u>	<u>\$364</u>
Name	2012.1.1	
	NT\$	US\$
Other related parties		
Cathay Life Insurance Co., Ltd.	\$-	\$-
Cathay United Bank Co., Ltd.	44,226	1,461
Total	<u>\$44,226</u>	<u>\$1,461</u>

Premium receivables generated by the principal business activities of premium income, for the period of one month.

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(3) Insurance claims payment

Name	For the year ended 31 December 2013	
	NT\$	US\$
Other related parties		
Cathay United Bank Co., Ltd.	\$607	\$20

Name	For the year ended 31 December 2012	
	NT\$	US\$
Other related parties		
Cathay United Bank Co., Ltd.	\$3,107	\$107

(4) Cash in banks

Name	Type	2013.12.31	
		NT\$	US\$
Other related parties			
Cathay United Bank Co., Ltd.	Cash in banks	\$777,180	\$26,054
	Time deposits	\$668,131	\$22,398

Name	Type	2012.12.31	
		NT\$	US\$
Other related parties			
Cathay United Bank Co., Ltd.	Cash in banks	\$589,915	\$20,307
	Time deposits	\$675,800	\$23,263

Name	Type	2012.1.1	
		NT\$	US\$
Other related parties			
Cathay United Bank Co., Ltd.	Cash in banks	\$420,125	\$13,879
.	Time deposits	\$895,000	\$29,567

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(Expressed in thousands of dollars unless otherwise stated)

Name	Type	Interest rate		
		2013.12.31	2012.12.31	2012.1.1
Other related parties				
Cathay United Bank	Cash in banks	0.01%-0.75%	0.01%-0.75%	0.17%
Co., Ltd.	Time deposits	0.17%-3.50%	0.17%-1.70%	0.17%-1.345%

Name	Type	Interest Revenue			
		For the year ended 31 December 2013		For the year ended 31 December 2012	
		NT\$	US\$	NT\$	US\$
Other related parties					
Cathay United Bank	Cash in banks	\$535	\$18	\$447	\$15
Co., Ltd.	Time deposits	\$8,914	\$299	\$10,644	\$366

As of 31 December 2013, 31 December 2012 and 1 January 2012, time deposit pledged were NT\$25,000 (US\$838) thousands, NT\$20,000 (US\$688) thousands and NT\$20,000 (US\$661) thousands, respectively.

(5) Secured Loans

Name	For the year ended 31 December 2013 (NT\$)			
	Maximum amount	Ending balance	Interest rate	Interest income
Other related parties	\$36,707	\$32,503	1.84%	\$648

Name	For the year ended 31 December 2013 (US\$)			
	Maximum amount	Ending balance	Interest rate	Interest income
Other related parties	\$1,231	\$1,090	1.84%	\$22

Name	For the year ended 31 December 2012 (NT\$)			
	Maximum amount	Ending balance	Interest rate	Interest income
Other related parties	\$42,258	\$38,291	1.88%-2.03%	\$768

Name	For the year ended 31 December 2012 (US\$)			
	Maximum amount	Ending balance	Interest rate	Interest income
Other related parties	\$1,455	\$1,318	1.88%-2.03%	\$26

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Notes to consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

(6) Available-for-sale financial assets

Name	2013.12.31	
	NT\$	US\$
Other related parties		
Cathay Securities Investment Trust Co., Ltd.	\$146,836	\$4,922

Name	2012.12.31	
	NT\$	US\$
Other related parties		
Cathay Securities Investment Trust Co., Ltd.	\$67,557	\$2,326

Name	2012.1.1	
	NT\$	US\$
Other related parties		
Cathay Securities Investment Trust Co., Ltd.	\$50,845	\$1,680

(7) Guarantee deposits paid

Name	2013.12.31	
	NT\$	US\$
Other related parties		
Cathay Life Insurance Co., Ltd.	\$24,464	\$820
Cathay Futures Co., Ltd.	9,950	334
Cathay United Bank Co., Ltd.	27,221	913
Lin Yuan (Shanghai) Real Estate	5,262	176
Total	\$66,897	\$2,243

Name	2012.12.31	
	NT\$	US\$
Other related parties		
Cathay Life Insurance Co., Ltd.	\$22,678	\$781
Cathay Futures Co., Ltd.	5,145	177
Cathay United Bank Co., Ltd.	22,085	760
Total	\$49,908	\$1,718

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(Expressed in thousands of dollars unless otherwise stated)

Name	2012.1.1	
	NT\$	US\$
Other related parties		
Cathay Life Insurance Co., Ltd.	\$23,234	\$767
Cathay Futures Co., Ltd.	7,528	249
Cathay United Bank Co., Ltd.	21,661	716
Total	<u>\$52,423</u>	<u>\$1,732</u>

(8) Other payable

Name	2013.12.31	
	NT\$	US\$
Parent company		
Cathay Financial Holding Co., Ltd.	\$212,790	\$7,133
Other related parties		
Cathay Life Insurance Co., Ltd.	164,984	5,531
Total	<u>\$377,774</u>	<u>\$12,664</u>

Name	2012.12.31	
	NT\$	US\$
Parent company		
Cathay Financial Holding Co., Ltd.	\$172,887	\$5,951
Other related parties		
Cathay Life Insurance Co., Ltd.	141,412	4,868
Total	<u>\$314,299</u>	<u>\$10,819</u>

Name	2012.1.1	
	NT\$	US\$
Parent company		
Cathay Financial Holding Co., Ltd.	\$103,717	\$3,427
Other related parties		
Cathay Life Insurance Co., Ltd.	217,861	7,197
Total	<u>\$321,578</u>	<u>\$10,624</u>

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Notes to consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

(9) Preferred stock liability

Name	2013.12.31	
	NT\$	US\$
Parent company		
Cathay Financial Holding Co., Ltd.	\$1,000,000	\$33,523

Name	2012.12.31	
	NT\$	US\$
Parent company		
Cathay Financial Holding Co., Ltd.	\$1,000,000	\$34,424

Name	2012.1.1	
	NT\$	US\$
Parent company		
Cathay Financial Holding Co., Ltd.	\$1,000,000	\$33,036

(10) Operating costs

Name	Summary	For the year ended 31 December 2013		For the year ended 31 December 2012	
		NT\$	US\$	NT\$	US\$
Other related parties					
Cathay United Bank Co., Ltd.	Handing fee paid	\$18,229	\$611	\$15,560	\$536

(11) Operating expenses

Name	Summary	For the year ended 31 December 2013		For the year ended 31 December 2012	
		NT\$	US\$	NT\$	US\$
Other related parties					
Cathay Life Insurance Co., Ltd.	Rental expenses	\$102,738	\$3,444	\$92,860	\$3,197
	Marketing expenses	1,298,186	43,520	1,168,663	40,229
	Party premium expenses	14,313	480	13,545	466
	Administrative expenses	7,462	250	7,617	262
Cathay United Bank Co., Ltd.	Marketing expenses	64,534	2,163	62,642	2,156
	Rental expenses	8,527	286	7,681	265
Lin Yuan (Shanghai) Real Estate	Rental expenses	9,848	330	-	-
Total		\$1,505,608	\$50,473	\$1,353,008	\$46,575

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(Expressed in thousands of dollars unless otherwise stated)

(12) Other expenses

Name	For the year ended 31 December 2013		For the year ended 31 December 2012	
	NT\$	US\$	NT\$	US\$
Other related parties				
Symphox Information Co., Ltd.	\$33,518	\$1,124	\$30,140	\$1,038
Seaward Card Co., Ltd.	3,102	104	-	-
Total	<u>\$36,620</u>	<u>\$1,228</u>	<u>\$30,140</u>	<u>\$1,038</u>

(13) Non-operating expenses and losses

Name	For the year ended 31 December 2013		For the year ended 31 December 2012	
	NT\$	US\$	NT\$	US\$
Other related parties				
Cathay Financial Holding Co., Ltd.	<u>\$18,600</u>	<u>\$624</u>	<u>\$18,600</u>	<u>\$640</u>

Note: Non-operating expenses and losses are interest expenses accrued from preferred stock liability.

(14) Other

As of 31 December 2013 and 2012 the nominal amount of the derivative financial instruments transactions with Cathay United Bank are listed below:

Name	Item	2013.12.31	2012.12.31
Other related parties			
Cathay United Bank Co., Ltd	CS contracts	US\$57,450	US\$75,250
	IRS	NT\$400,000 (US\$13,409)	NT\$400,000 (US\$13,769)
Name	Item	2012.1.1	
Other related parties			
Cathay United Bank Co., Ltd	CS contracts	US\$41,050	
	IRS	NT\$600,000 (US\$19,822)	

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(15) Key management personnel compensation in total

Item	For the year ended 31 December 2013		For the year ended 31 December 2012	
	NT\$	US\$	NT\$	US\$
Short-term employee benefits	\$37,470	\$1,256	\$28,290	\$974
Post-employment benefits	2,995	100	3,137	108
Termination benefits	2,708	91	-	-
Total	<u>\$43,173</u>	<u>\$1,447</u>	<u>\$31,427</u>	<u>\$1,082</u>

9. Pledged assets

(1) The Company

Item	2013.12.31	
	NT\$	US\$
Government deposits paid-time deposits	\$519,321	\$17,409
Guarantee deposits paid	25,000	838
Total	<u>\$544,321</u>	<u>\$18,247</u>

Item	2012.12.31	
	NT\$	US\$
Government deposits paid-time deposits	\$626,639	\$21,571
Guarantee deposits paid	20,000	688
Total	<u>\$646,639</u>	<u>\$22,259</u>

Item	2012.1.1	
	NT\$	US\$
Government deposits paid-time deposits	\$403,738	\$13,338
Guarantee deposits paid	20,000	661
Total	<u>\$423,738</u>	<u>\$13,999</u>

As of 31 December 2013, 31 December 2012 and 1 January 2012, the Company provided government bonds amounting to NT\$519,321 (US\$17,409) thousand, NT\$626,639 (US\$21,571) thousand, and NT\$403,738 (US\$13,338) thousands, respectively, as the “Guaranteed Depository Insurance” in accordance with the Insurance Act. The pledged assets are stated at book value.

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(2) Cathay Insurance (China)

Item	2013.12.31	
	NT\$	US\$
Government deposits paid-time deposits	\$606,914	\$20,346

Item	2012.12.31	
	NT\$	US\$
Government deposits paid-time deposits	\$373,928	\$12,872

Item	2012.1.1	
	NT\$	US\$
Government deposits paid-time deposits	\$385,000	\$12,719

According to the Insurance Act of the People's Republic of China, Cathy Insurance (China) should deposit guarantee deposits at an amount equal to 20% of it paid-in capital. The guaranteed deposits of Cathay Insurance (China) are time deposits. The pledged assets are stated at book value.

(3) Cathay Insurance (Vietnam)

Item	2013.12.31	
	NT\$	US\$
Government deposits paid-time deposits	\$10,850	\$363

Item	2012.12.31	
	NT\$	US\$
Government deposits paid-time deposits	\$8,231	\$283

Item	2012.1.1	
	NT\$	US\$
Government deposits paid-time deposits	\$8,506	\$281

According to Insurance Act of Vietnam, Cathy Insurance (Vietnam) should deposit guarantee deposits at an amount equal to 2% of it paid-in capital. The guaranteed deposits of Cathay Insurance (Vietnam) are time deposits. The pledged assets are stated at book value.

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10. Contingent liabilities and Unrecognized contractual commitments

The Consolidated Company entered into several operating lease contracts for office and equipment. The operating lease will expire in 3-5 years, and there's no limited condition in the contracts.

According to the operating lease contracts, the future minimum lease payments at 31 December 2013, 31 December 2012 and 1 January 2012 are as follows:

(1) Significant lease contracts of the Company

NT\$	2013.12.31	2012.12.31	2012.1.1
Not later than 1 year	\$122,885	\$118,857	\$104,074
Later than 1 year but not later than 5 years	491,541	475,428	419,772
	<u>\$614,426</u>	<u>\$594,285</u>	<u>\$523,846</u>

US\$	2013.12.31	2012.12.31	2012.1.1
Not later than 1 year	\$4,120	\$4,091	\$3,438
Later than 1 year but not later than 5 years	16,478	16,366	13,868
	<u>\$20,598</u>	<u>\$20,457</u>	<u>\$17,306</u>

(2) Operating lease contracts that can't be cancelled of Cathay Insurance (China)

NT\$	2013.12.31	2012.12.31	2012.1.1
Not later than 1 year	\$65,219	\$62,124	\$77,453
Later than 1 year but not later than 5 years	115,684	47,032	68,137
	<u>\$180,903</u>	<u>\$109,156</u>	<u>\$145,590</u>

US\$	2013.12.31	2012.12.31	2012.1.1
Not later than 1 year	\$2,186	\$2,139	\$2,559
Later than 1 year but not later than 5 years	3,878	1,619	2,251
	<u>\$6,064</u>	<u>\$3,758</u>	<u>\$4,810</u>

11. Significant disaster losses: None.

12. Subsequent events: None.

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13. Others

- (1) Assets and liabilities are distinguished based on expectations regarding recovery or settlement within 12 months after the reporting date and more than 12 months after the reporting date.

Item	31 December 2013 (NT\$)		
	Recovery or settlement within 12 months	Recovery or settlement more than 12 months	Total
Cash and cash equivalents	\$8,194,772	\$-	\$8,194,772
Receivables	3,725,513	-	3,725,513
Investments	5,451,436	7,538,540	12,989,976
Reinsurance contracts assets	-	5,057,226	5,057,226
Property and equipment	-	303,365	303,365
Intangible assets	-	29,031	29,031
Other assets	-	1,409,434	1,409,434
Total assets			<u>\$31,709,317</u>
Payables	\$2,614,615	\$7,923	\$2,622,538
Financial liabilities	28,352	1,000,000	1,028,352
Insurance liabilities	-	21,853,590	21,853,590
Provision	-	236,272	236,272
Other liabilities	-	457,466	457,466
Total liabilities			<u>\$26,198,218</u>

Item	31 December 2013 (US\$)		
	Recovery or settlement within 12 months	Recovery or settlement more than 12 months	Total
Cash and cash equivalents	\$274,716	\$-	\$274,716
Receivables	124,891	-	124,891
Investments	182,750	252,717	435,467
Reinsurance contracts assets	-	169,535	169,535
Property and equipment	-	10,170	10,170
Intangible assets	-	973	973
Other assets	-	47,249	47,249
Total assets			<u>\$1,063,001</u>
Payables	\$87,651	\$266	\$87,917
Financial liabilities	950	33,523	34,473
Insurance liabilities	-	732,604	732,604
Provision	-	7,921	7,921
Other liabilities	-	15,336	15,336
Total liabilities			<u>\$878,251</u>

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(Expressed in thousands of dollars unless otherwise stated)

Item	31 December 2012 (NT\$)		
	Recovery or settlement within 12 months	Recovery or settlement more than 12 months	Total
Cash and cash equivalents	\$5,677,051	\$-	\$5,677,051
Receivables	3,291,611	-	3,291,611
Investments	6,642,567	6,575,183	13,217,750
Reinsurance contracts assets	-	5,514,577	5,514,577
Property and equipment	-	180,172	180,172
Intangible assets	-	35,755	35,755
Other assets	-	1,271,098	1,271,098
Total assets			<u>\$29,188,014</u>
Payables	\$2,217,446	\$5,559	\$2,223,005
Financial liabilities	-	1,000,000	1,000,000
Insurance liabilities	-	20,440,598	20,440,598
Provision	-	247,950	247,950
Other liabilities	-	459,128	459,128
Total liabilities			<u>\$24,370,681</u>

Item	31 December 2012 (US\$)		
	Recovery or settlement within 12 months	Recovery or settlement more than 12 months	Total
Cash and cash equivalents	\$195,423	\$-	\$195,423
Receivables	113,308	-	113,308
Investments	228,660	226,341	455,001
Reinsurance contracts assets	-	189,831	189,831
Property and equipment	-	6,202	6,202
Intangible assets	-	1,231	1,231
Other assets	-	43,755	43,755
Total assets			<u>\$1,004,751</u>
Payables	\$76,331	\$192	\$76,523
Financial liabilities	-	34,424	34,424
Insurance liabilities	-	703,635	703,635
Provision	-	8,536	8,536
Other liabilities	-	15,804	15,804
Total liabilities			<u>\$838,922</u>

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(Expressed in thousands of dollars unless otherwise stated)

Item	1 January 2012 (NT\$)		
	Recovery or settlement within 12 months	Recovery or settlement more than 12 months	Total
Cash and cash equivalents	\$6,926,067	\$-	\$6,926,067
Receivables	2,909,396	-	2,909,396
Investments	4,531,176	6,173,559	10,704,735
Reinsurance contracts assets	-	5,202,403	5,202,403
Property and equipment	-	225,801	225,801
Intangible assets	-	37,323	37,323
Other assets	-	1,096,594	1,096,594
Total assets			<u>\$27,102,319</u>
Payables	\$2,090,541	\$10,721	\$2,101,262
Financial liabilities	45,000	1,000,000	1,045,000
Insurance liabilities	-	19,075,973	19,075,973
Provision	-	259,488	259,488
Other liabilities	-	282,128	282,128
Total liabilities			<u>\$22,763,851</u>

Item	1 January 2012 (US\$)		
	Recovery or settlement within 12 months	Recovery or settlement more than 12 months	Total
Cash and cash equivalents	\$228,809	\$-	\$228,809
Receivables	96,115	-	96,115
Investments	149,692	203,950	353,642
Reinsurance contracts assets	-	171,867	171,867
Property and equipment	-	7,460	7,460
Intangible assets	-	1,233	1,233
Other assets	-	36,227	36,227
Total assets			<u>\$895,353</u>
Payables	\$69,063	\$354	\$69,417
Financial liabilities	1,487	33,036	34,523
Insurance liabilities	-	630,194	630,194
Provision	-	8,573	8,573
Other liabilities	-	9,320	9,320
Total liabilities			<u>\$752,027</u>

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(2) Hedged of derivative financial instruments related information

Cash flow hedges-IRS

The following table summarizes the terms of the Company's interest rate swap for bonds hedging at 31 December 2013:

Par value		Exchange rate	Frequency	Maturity date
NT\$	US\$			
\$200,000	\$6,705	2.65%	Each quarterly	30 Sep 2014
200,000	6,705	2.785%	Each quarterly	30 Apr 2015

The terms of interest rate swap agreements are established based on the terms of the bonds being hedged.

The Company's interest rate swap agreements for cash flow hedges have passed the effectiveness testing. Unrealized gains on financial instruments were recognized in equity by NT\$10,022 (US\$336) thousands and NT\$17,134 (US\$590) thousands as of 31 December 2013 and 2012, respectively.

(3) Eliminated inter-company transactions

Transactions	2013.12.31 (NT\$)		
	Company name and debit(credit) amounts		
	The Company	Cathay Insurance(China)	Cathay Insurance(Vietnam)
Eliminate investment under equity method and equity			
① Eliminate subsidiaries investment profit and loss	\$479,589	\$(446,387)	\$(33,202)
② Eliminate subsidiaries equity	(824,891)	700,223	474,780
Transactions	2013.12.31 (US\$)		
	Company name and debit(credit) amounts		
	The Company	Cathay Insurance(China)	Cathay Insurance(Vietnam)
Eliminate investment under equity method and equity			
① Eliminate subsidiaries investment profit and loss	\$16,077	\$(14,964)	\$(1,113)
② Eliminate subsidiaries equity	(27,653)	23,474	15,916

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Notes to consolidated financial statements (continued)

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Transactions	2012.12.31 (NT\$)		
	Company name and debit(credit) amounts		
	The Company	Cathay Insurance(China)	Cathay Insurance(Vietnam)
Eliminate investment under equity method and equity			
①Eliminate subsidiaries investment profit and loss	\$354,164	\$(324,496)	\$(29,668)
②Eliminate subsidiaries equity	(678,072)	600,580	377,782

Transactions	2012.12.31 (US\$)		
	Company name and debit(credit) amounts		
	The Company	Cathay Insurance(China)	Cathay Insurance(Vietnam)
Eliminate investment under equity method and equity			
①Eliminate subsidiaries investment profit and loss	\$12,192	\$(11,171)	\$(1,021)
②Eliminate subsidiaries equity	(23,341)	20,674	13,004

Note: The eliminated difference of inter-company result in non-controlling equity NT\$350,112 (US\$11,737) thousands and NT\$300,290 (US\$10,337) thousands for the years ended 31 December 2013 and 2012.

The business relationship and amounts to significant transactions between inter-companies refer to Table 5.

(4)Exchange rates used to translate material financial assets and liabilities denominated in foreign currencies are disclosed as follows :

	31 December 2013		
	Foreign Currency	Exchange Rate	NTD
Financial Assets			
Monetary Items			
USD	\$106,807	29.9500	\$3,198,870
RMB	575,799	4.9118	2,828,210
EUR	193	41.1214	7,936
Non-Monetary Items			
USD	115,370	29.9500	-
	(Nominal Amount)		(Note)
Investment under equity method			
RMB	70,770	4.9472	350,112
VND	346,554,936	0.001370	474,780

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(Expressed in thousands of dollars unless otherwise stated)

	31 December 2012		
	<u>Foreign Currency</u>	<u>Exchange Rate</u>	<u>NTD</u>
<u>Financial Assets</u>			
<u>Monetary Items</u>			
USD	\$174,121	29.1360	\$5,073,189
RMB	127,845	4.6588	595,604
<u>Non-Monetary Items</u>			
USD	176,020	29.1360	-
	(Nominal Amount)		(Note)
<u>Investment under equity method</u>			
RMB	64,246	4.6741	300,290
VND	280,878,487	0.001345	377,782
	1 January 2012		
	<u>Foreign Currency</u>	<u>Exchange Rate</u>	<u>NTD</u>
<u>Financial Assets</u>			
<u>Monetary Items</u>			
USD	\$103,478	30.2900	\$3,134,349
<u>Non-Monetary Items</u>			
USD	95,320	30.2900	-
	(Nominal Amount)		(Note)
<u>Investment under equity method</u>			
RMB	130,716	4.8125	629,070
VND	302,534,342	0.00139	420,523

Note: The Company conducted forward currency contracts and interest rate swap contracts for hedging. Financial liabilities at fair value through profit and loss were recognized by NT\$28,352 (US\$950) thousands and NT\$45,000 (US\$1,487) thousands at 31 December 2013 and 1 January 2012. Financial assets at fair value through profit and loss were recognized in income statement by NT\$60,579 (US\$2,086) thousands at 31 December 2012.

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Notes to consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

(5)Capital management

A. Objective

In order to enhance the Company's capital structure and business growth, the Company has established a set of capital adequacy management standards and complies with laws and regulation to maintain its capital adequacy ratio in a certain range in order to reduce all types of risks.

B. Policy

In order to assume all types of risks, the Company applies capital adequacy ratio as the index of capital adequacy. The Company calculates capital adequacy ratio periodically and aperiodically in order to understand the situation of capital adequacy in the short-run and mid-term. The Company set business objectives, plan assets allocation based on the ratio and dividend policy.

C. Procedures

a. Periodically

Regularly review the capital adequacy ratios in order to implement the capital adequacy management. The Company provides capital adequacy report every six-month periods by the competent authority and analysis its own capital and the possible changes in risk capital when forecasting the investment development plan. The Company ensures a healthy capital structure and implements capital adequacy management.

b. Aperiodically

Practice scenario analysis for capital adequacy ratio focusing on the Company's usage of funding, business development, reinsurance arrangement, or changes of the financial environment including updates of laws and regulations.

D. Capital adequacy ratio

Capital adequacy ratio of the Company, which is defined by Insurance Act and Regulations Governing Capital Adequacy of Insurance Companies, is above 200% during the past two years, and complies with the regulations.

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Notes to consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

(6) Operation segments information

The Consolidated Company operates property insurance by Insurance Act. In accordance with IFRS 8, the Company only provides insurance contracts products and it has no different business way, client style and supervision environment. The supervisor of the Company also implement assets overall, and consider the Company as a single operating segment.

14. Information of investment in Mainland China

On 31 December 2006, the Investment Commission of the Ministry of Economic Affairs (MOEAIC) authorized the Company to USD\$28.96 million to the establish an insurance subsidiary, engaging in the business of property insurance business. On 8 October 2007, China Insurance Regulatory Commission (CIRC) authorized the Company to prepare to build a property insurance company in form of joint venture with Cathay life Insurance. And ,the joint venture company named Cathay Insurance Company Ltd. (China) established in Shanghai has acquired a business license of an enterprise as a legal person on 26 August 2008. On 28 May 2013, the Investment Commission of the Ministry of Economic Affairs (MOEAIC) authorized the Company to CNY\$200 million to the establish a insurance subsidiary. As of 31 December 2013 the Company has totally remitted US\$44.03 million.

15. First-time adoption of TIFRS

For all periods up to and including the year ended 31 December 2012, the Consolidated Company prepared its financial statements in accordance with generally accepted accounting principles in R.O.C. (R.O.C. GAAP). The consolidated financial statements for the year ended 31 December 2013 is the first the Consolidated Company has prepared in accordance with TIFRS.

Accordingly, the Consolidated Company has prepared financial statements which comply with TIFRS and the Guidelines Governing the Preparation of Financial Reports by Insurance Enterprises for periods beginning 1 January 2013 as described in the accounting policies under Note 4. Furthermore the first interim financial statements prepared under TIFRS also comply with the requirements under IFRS 1 “First-time Adoption of International Financial Reporting Standards”. The Consolidated Company’s opening balance sheet was prepared as at 1 January 2012, the Consolidated Company’s date of transition to TIFRS.

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(Expressed in thousands of dollars unless otherwise stated)

Exemptions applied in accordance with IFRS 1 “First-time Adoption of International Financial Reporting Standards”

IFRS 1 “First-time Adoption of International Financial Reporting Standards” allows first-time adopters certain exemptions from the retrospective application of certain IFRS. The Consolidated Company has applied the following exemptions:

- (1) The Consolidated Company recognized total accumulated actuarial profit or loss as retained earnings once at the date of transition.
- (2) The present value of defined benefits obligation, fair value of projected assets and projected profit and loss and adjusted information based on experience defined in IAS 19 Employee Benefits should be disclosed at the amount with deferred determination in each accounting period since the date of transition to IFRS.

Impacts of transitioning to TIFRS

The following tables contain reconciliation of balance sheets as at 1 January 2012 (the date of transition to TIFRS) and 31 December 2012 and statements of comprehensive income for the year ended 31 December 2012:

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Notes to consolidated financial statements

(Expressed in thousands of dollars unless otherwise stated)

31 December 2013 and 2012

(1) Reconciliation of consolidated balance sheet items as at 1 January 2012 (the date of transition to TIFRS)

R.O.C. GAAP (NT\$)		Impact of transitioning to TIFRS (NT\$)		TIFRS (NT\$)		Notes
Items	Amounts	Remeasurements	Presentation	Amounts	Items	
Cash and Cash equivalents	\$6,998,255		(72,188)	\$6,926,067	Cash and Cash equivalents	3
Notes receivable	254,593			254,593	Notes receivable	
Premium receivable	2,541,899			2,541,899	Premium receivable	
Claims recoverable from reinsurers	268,251		(268,251)	-		4
Due from reinsurers and ceding companies	497,874		(497,874)	-		4
Other accounts receivable	112,904			112,904	Other accounts receivable	
Receivables	3,675,521			2,909,396	Receivables	
Financial assets at fair value through profit or loss	619,455			619,455	Financial assets at fair value through profit or loss	
Available-for-sale financial assets	5,897,618			5,897,618	Available-for-sale financial assets	
Derivative financial assets for hedging	28,521			28,521	Derivative financial assets for hedging	
Investments under equity method	5,465			5,465	Investments accounted for using the equity method	
Investments in debt securities with no active market	1,120,809		72,188	1,192,997	Bond investments with no active market	3
Held-to-maturity financial assets	2,408,714			2,408,714	Held-to-maturity financial assets	
Secured Loans	551,965			551,965	Secured Loans	
Investments	10,632,547			10,704,735	Investments	
Reinsurance Reserve Assets- Net	4,436,278		766,125	5,202,403	Reinsurance contracts assets	4
Other equipment	496,640			496,640	Other equipment	
Leasehold improvements	44,598			44,598	Leasehold improvements	
Subtotal	541,238			541,238		
Less: Accumulated depreciation	(319,739)			(319,739)	Less: Accumulated depreciation	
Prepayments for equipments	4,302			4,302	Prepayments for equipments	
Property and equipment- Net	225,801			225,801	Property and equipment	
Intangible assets	41,384	(4,061)		37,323	Intangible assets	1
-	-		105,494	105,494	Deferred income tax assets	2
Prepayments	9,187			9,187	Prepayments	
Guarantee deposits paid	940,947			940,947	Guarantee deposits paid	
Deferred income tax assets	40,092	65,402	(105,494)	-		1、2
Other assets- others	40,966			40,966	Other assets- others	
Other assets	1,031,192			991,100	Other assets	
Total assets	\$27,040,978			\$27,102,319	Total assets	

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Notes to consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

R.O.C. GAAP (NT\$)		Impact of transitioning to TIFRS (NT\$)		TIFRS (NT\$)		Notes
Items	Amounts	Remeasurements	Presentation	Amounts	Items	
Claims outstanding	\$16,970			\$16,970	Claims outstanding	
Commissions payable	135,923			135,923	Commissions payable	
Due to reinsurers and ceding companies	1,261,437			1,261,437	Due to reinsurers and ceding companies	
Other payables	686,932			686,932	Other payables	
Payables	<u>2,101,262</u>			<u>2,101,262</u>	Payables	
Financial liabilities at fair value through profit or loss	45,000			45,000	Financial liabilities at fair value through profit or loss	
Preferred stock liability	1,000,000			1,000,000	Preferred stock liability	
Financial Liabilities	<u>1,045,000</u>			<u>1,045,000</u>	Financial Liabilities	
Unearned premiums reserve	8,925,059			8,925,059	Unearned premiums reserve	
Claim reserve	5,364,787			5,364,787	Claim reserve	
Special reserve	4,761,102			4,761,102	Special reserve	
Premiums deficiency reserve	25,025			25,025	Premiums deficiency reserve	
Reserve for operating and liability	<u>19,075,973</u>			<u>19,075,973</u>	Operating and liability reserves	
-	-		259,488	259,488	Provision	1
-	-		22,311	22,311	Deferred income tax liabilities	2
Guarantee deposits received	30			30	Guarantee deposits received	
Accrued pension liabilities	123,232	136,256	(259,488)	-	-	1
Deferred income tax liabilities	-	22,311	(22,311)	-	-	2
Other liabilities - others	259,787			259,787	Other liabilities - others	
Other liabilities	<u>383,049</u>			<u>259,817</u>	Other liabilities	
Total liabilities	<u>\$22,605,284</u>			<u>\$22,763,851</u>	Total liabilities	
Capital stock					Capital stock	
Common stock	2,317,006			2,317,006	Common stock	
Capital surplus					Capital surplus	
Capital surplus - others	1,929			1,929	Capital surplus - others	
Retained earnings					Retained earnings	
Legal reserve	834,443			834,443	Legal reserve	
Special capital reserve	462,480			462,480	Special capital reserve	
Unappropriated retained earnings	380,220	(210,384)		169,836	Undistributed earnings	1
Equity adjustment					Other equity	

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(Expressed in thousands of dollars unless otherwise stated)

R.O.C. GAAP (NT\$)		Impact of transitioning to TIFRS (NT\$)		TIFRS (NT\$)		Notes
Items	Amounts	Remeasurements	Presentation	Amounts	Items	
Cumulative translation adjustments	(22,377)			(22,377)	Exchange differences resulting from translating the financial statements of a foreign operation	
Unrealized gains or losses on financial instruments	(82,440)			(82,440)	Unrealized gains (losses) from available-for-sale financial assets	
Unrealized gains or losses on financial instruments	28,521			28,521	Gains (losses) on cash flow hedges	
Net loss not recognized as net pension cost	(113,158)	113,158		-		1
Minority interest	629,070			629,070	Non-controlling interests	
Total stockholders' equity	<u>4,435,694</u>			<u>4,338,468</u>	Total equity	
Total liabilities and stockholders' equity	<u>\$27,040,978</u>			<u>\$27,102,319</u>	Total liabilities and equity	

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(Expressed in thousands of dollars unless otherwise stated)

R.O.C. GAAP (US\$)		Impact of transitioning to TIFRS (US\$)		TIFRS (US\$)		Notes
Items	Amounts	Remeasurements	Presentation	Amounts	Items	
Cash and Cash equivalents	\$231,194		(2,385)	\$228,809	Cash and Cash equivalents	3
Notes receivable	8,411			8,411	Notes receivable	
Premium receivable	83,974			83,974	Premium receivable	
Claims recoverable from reinsurers	8,862		(8,862)	-		4
Due from reinsurers and ceding companies	16,448		(16,448)	-		4
Other accounts receivable	3,730			3,730	Other accounts receivable	
Receivables	121,425			96,115	Receivables	
Financial assets at fair value through profit or loss	20,464			20,464	Financial assets at fair value through profit or loss	
Available-for-sale financial assets	194,834			194,834	Available-for-sale financial assets	
Derivative financial assets for hedging	942			942	Derivative financial assets for hedging	
Investments under equity method	181			181	Investments accounted for using the equity method	
Investments in debt securities with no active market	37,027		2,385	39,412	Bond investments with no active market	3
Held-to-maturity financial assets	79,574			79,574	Held-to-maturity financial assets	
Secured Loans	18,235			18,235	Secured Loans	
Investments	351,257			353,642	Investments	
Reinsurance Reserve Assets- Net	146,557		25,310	171,867	Reinsurance contracts assets	4
Other equipment	16,407			16,407	Other equipment	
Leasehold improvements	1,473			1,473	Leasehold improvements	
Subtotal	17,880			17,880		
Less: Accumulated depreciation	(10,562)			(10,562)	Less: Accumulated depreciation	
Prepayments for equipments	142			142	Prepayments for equipments	
Property and equipment- Net	7,460			7,460	Property and equipment	
Intangible assets	1,367	(134)		1,233	Intangible assets	1
-	-		3,485	3,485	Deferred income tax assets	2
Prepayments	304			304	Prepayments	
Guarantee deposits paid	31,085			31,085	Guarantee deposits paid	
Deferred income tax assets	1,324	2,161	(3,485)	-		1、2
Other assets- others	1,353			1,353	Other assets- others	
Other assets	34,066			32,742	Other assets	
Total assets	\$893,326			\$895,353	Total assets	

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R.O.C. GAAP (US\$)		Impact of transitioning to		TIFRS (US\$)		Notes
Items	Amounts	Remeasurements	Presentation	Amounts	Items	
Claims outstanding	\$561			\$561	Claims outstanding	
Commissions payable	4,490			4,490	Commissions payable	
Due to reinsurers and ceding companies	41,673			41,673	Due to reinsurers and ceding companies	
Other payables	22,693			22,693	Other payables	
Payables	69,417			69,417	Payables	
Financial liabilities at fair value through profit or loss	1,487			1,487	Financial liabilities at fair value through profit or loss	
Preferred stock liability	33,036			33,036	Preferred stock liability	
Financial Liabilities	34,523			34,523	Financial Liabilities	
Unearned premiums reserve	294,848			294,848	Unearned premiums reserve	
Claim reserve	177,231			177,231	Claim reserve	
Special reserve	157,288			157,288	Special reserve	
Premiums deficiency reserve	827			827	Premiums deficiency reserve	
Reserve for operating and liability	630,194			630,194	Operating and liability reserves	
-	-		8,573	8,573	Provision	1
-	-		737	737	Deferred income tax liabilities	2
Guarantee deposits received	1			1	Guarantee deposits received	
Accrued pension liabilities	4,071	4,502	(8,573)	-	-	1
Deferred income tax liabilities	-	737	(737)	-	-	2
Other liabilities - others	8,582			8,582	Other liabilities - others	
Other liabilities	12,654			8,583	Other liabilities	
Total liabilities	\$746,788			\$752,027	Total liabilities	
Capital stock					Capital stock	
Common stock	76,545			76,545	Common stock	
Capital surplus					Capital surplus	
Capital surplus - others	64			64	Capital surplus - others	
Retained earnings					Retained earnings	
Legal reserve	27,567			27,567	Legal reserve	
Special capital reserve	15,278			15,278	Special capital reserve	
Unappropriated retained earnings	12,561	(6,950)		5,611	Undistributed earnings	1

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R.O.C. GAAP (US\$)		Impact of transitioning to TIFRS (US\$)		TIFRS (US\$)		Notes
Items	Amounts	Remeasurements	Presentation	Amounts	Items	
Equity adjustment					Other equity	
					Exchange differences	
					resulting from translating	
Cumulative translation adjustments	(740)			(740)	the financial statements of a	
					foreign operation	
Unrealized gains or losses on financial instruments	(2,723)			(2,723)	Unrealized gains (losses)	
					from available-for-sale	
Unrealized gains or losses on financial instruments	942			942	financial assets	
					Gains (losses) on cash flow	
Net loss not recognized as net pension cost	(3,738)	3,738		-	hedges	
Minority interest	20,782			20,782	Non-controlling interests	1
Total stockholders' equity	<u>146,538</u>			<u>143,326</u>	Total equity	
Total liabilities and stockholders' equity	<u><u>\$893,326</u></u>			<u><u>\$895,353</u></u>	Total liabilities and equity	

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Notes to consolidated financial statements (continued)

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(2) Reconciliation of consolidated balance sheet items as at 31 December 2012

R.O.C. GAAP (NT\$)		Impact of transitioning to TIFRS (NT\$)		TIFRS (NT\$)		Notes
Items	Amounts	Remeasurements	Presentation	Amounts	Items	
Cash and Cash equivalents	\$5,827,862		(150,811)	\$5,677,051	Cash and Cash equivalents	3
Notes receivable	277,728			277,728	Notes receivable	
Premium receivable	2,869,353			2,869,353	Premium receivable	
Claims recoverable from reinsurers Due from reinsurers and ceding companies	513,592		(513,592)	-		- 4
Other accounts receivable	444,688		(444,688)	-		- 4
Receivables	144,530			144,530	Other accounts receivable Receivables	
	<u>4,249,891</u>			<u>3,291,611</u>		
Financial assets at fair value through profit or loss	437,273			437,273	Financial assets at fair value through profit or loss	
Available-for-sale financial assets	8,404,492			8,404,492	Available-for-sale financial assets	
Derivative financial assets for hedging	17,134			17,134	Derivative financial assets for hedging	
Investments under equity method	1,490			1,490	Investments accounted for using the equity method	
Investments in debt securities with no active market	1,172,459		150,811	1,323,270	Bond investments with no active market	3
Held-to-maturity financial assets	2,512,011			2,512,011	Held-to-maturity financial assets	
Secured Loans	522,080			522,080	Secured Loans	
Investments	<u>13,066,939</u>			<u>13,217,750</u>	Investments	
Reinsurance Reserve Assets - Net	4,556,297		958,280	5,514,577	Reinsurance contracts assets	4
Other equipment	440,965			440,965	Other equipment	
Leasehold improvements	49,279			49,279	Leasehold improvements	
Subtotal	490,244			490,244		-
Less: Accumulated depreciation	(310,320)			(310,320)	Less: Accumulated depreciation	
Prepayments for equipments	248			248	Prepayments for equipments	
Property and equipment - Net	<u>180,172</u>			<u>180,172</u>	Property and equipment	
Intangible assets	39,236	(3,481)		35,755	Intangible assets	1
-	-		80,750	80,750	Deferred income tax assets	2
Prepayments	7,319			7,319	Prepayments	
Guarantee deposits paid	1,139,563			1,139,563	Guarantee deposits paid	
Deferred income tax assets	20,294	60,456	(80,750)	-		- 1、2
Other assets - others	43,466			43,466	Other assets - others	
Other assets	<u>1,210,642</u>			<u>1,190,348</u>	Other assets	
Total assets	<u>\$29,131,039</u>			<u>\$29,188,014</u>	Total assets	

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R.O.C. GAAP (NT\$)		Impact of transitioning to		TIFRS (NT\$)		Notes
Items	Amounts	Remeasurements	Presentation	Amounts	Items	
Claims outstanding	\$21,009			\$21,009	Claims outstanding	
Commissions payable	112,371			112,371	Commissions payable	
Due to reinsurers and ceding companies	1,205,101			1,205,101	Due to reinsurers and ceding companies	
Other payables	881,846		2,678	884,524	Other payables	
Payables	<u>2,220,327</u>			<u>2,223,005</u>	Payables	
Preferred stock liability	1,000,000			1,000,000	Preferred stock liability	
Financial Liabilities	<u>1,000,000</u>			<u>1,000,000</u>	Financial Liabilities	
Unearned premiums reserve	10,100,374			10,100,374	Unearned premiums reserve	
Claim reserve	5,807,437			5,807,437	Claim reserve	
Special reserve	4,455,638			4,455,638	Special reserve	
Premiums deficiency reserve	77,149			77,149	Premiums deficiency reserve	
Reserve for operating and liability	<u>20,440,598</u>			<u>20,440,598</u>	Operating and liability reserves	
-	-		247,950	247,950	Provision	1
-	-		18,305	18,305	Deferred income tax liabilities	2
Guarantee deposits received	30			30	Guarantee deposits received	
Accrued pension liabilities	144,832	103,118	(247,950)	-	-	1
Deferred income tax liabilities	-	18,305	(18,305)	-	-	2
Other liabilities - others	440,793			440,793	Other liabilities - others	
Other liabilities	<u>585,655</u>			<u>440,823</u>	Other liabilities	
Total liabilities	<u>\$24,246,580</u>			<u>\$24,370,681</u>	Total liabilities	
Capital stock					Capital stock	
Common stock	2,522,950			2,522,950	Common stock	
Capital surplus					Capital surplus	
Capital surplus - others	1,929			1,929	Capital surplus - others	
Retained earnings					Retained earnings	
Legal reserve	954,800			954,800	Legal reserve	
Special capital reserve	923,897			923,897	Special capital reserve	
Unappropriated retained earnings	283,137	(205,799)		77,338	Undistributed earnings	1

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Notes to consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

R.O.C. GAAP (NT\$)		Impact of transitioning to TIFRS (NT\$)		TIFRS (NT\$)		Notes
Items	Amounts	Remeasurements	Presentation	Amounts	Items	
Equity adjustment					Other equity	
					Exchange differences	
					resulting from translating	
Cumulative translation					the financial statements of a	
adjustments	(52,536)			(52,536)	foreign operation	
					Unrealized gains (losses)	
Unrealized gains or losses on					from available-for-sale	
financial instruments	71,531			71,531	financial assets	
Unrealized gains or losses on					Gains (losses) on cash flow	
financial instruments	17,134			17,134	hedges	
Net loss not recognized as net						
pension cost	(138,673)	138,673		-		1
Minority interest	300,290			300,290	Non-controlling interests	
Total stockholders' equity	4,884,459			4,817,333	Total equity	
Total liabilities and stockholders'						
equity	\$29,131,039			\$29,188,014	Total liabilities and equity	

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Notes to consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

R.O.C. GAAP (US\$)		Impact of transitioning to TIFRS (US\$)		TIFRS (US\$)		
Items	Amounts	Remeasurements	Presentation	Amounts	Items	Notes
Cash and Cash equivalents	\$200,615		(5,192)	\$195,423	Cash and Cash equivalents	3
Notes receivable	9,560			9,560	Notes receivable	
Premium receivable	98,773			98,773	Premium receivable	
Claims recoverable from reinsurers	17,680		(17,680)	-		- 4
Due from reinsurers and ceding companies	15,308		(15,308)	-		- 4
Other accounts receivable	4,975			4,975	Other accounts receivable	
Receivables	<u>146,296</u>			<u>113,308</u>	Receivables	
Financial assets at fair value through profit or loss	15,053			15,053	Financial assets at fair value through profit or loss	
Available-for-sale financial assets	289,311			289,311	Available-for-sale financial assets	
Derivative financial assets for hedging	590			590	Derivative financial assets for hedging	
Investments under equity method	51			51	Investments accounted for using the equity method	
Investments in debt securities with no active market	40,360		5,192	45,552	Bond investments with no active market	3
Held-to-maturity financial assets	86,472			86,472	Held-to-maturity financial assets	
Secured Loans	17,972			17,972	Secured Loans	
Investments	<u>449,809</u>			<u>455,001</u>	Investments	
Reinsurance Reserve Assets- Net	<u>156,843</u>		32,988	<u>189,831</u>	Reinsurance contracts assets	4
Other equipment	15,179			15,179	Other equipment	
Leasehold improvements	1,697			1,697	Leasehold improvements	
Subtotal	16,876			16,876		
Less: Accumulated depreciation	(10,682)			(10,682)	Less: Accumulated depreciation	
Prepayments for equipments	8			8	Prepayments for equipments	
Property and equipment- Net	<u>6,202</u>			<u>6,202</u>	Property and equipment	
Intangible assets	<u>1,351</u>	(120)		<u>1,231</u>	Intangible assets	1
-	-		2,779	2,779	Deferred income tax assets	2
Prepayments	252			252	Prepayments	
Guarantee deposits paid	39,228			39,228	Guarantee deposits paid	
Deferred income tax assets	698	2,081	(2,779)	-		- 1、2
Other assets- others	1,496			1,496	Other assets- others	
Other assets	<u>41,674</u>			<u>40,976</u>	Other assets	
Total assets	<u>\$1,002,790</u>			<u>\$1,004,751</u>	Total assets	

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Cathay Century Insurance Co., Ltd. and Subsidiaries

Notes to consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

R.O.C. GAAP (US\$)		Impact of transitioning to			TIFRS (US\$)		
Items	Amounts	Remeasurements	Presentation	Amounts	Items	Notes	
Claims outstanding	\$723			\$723	Claims outstanding		
Commissions payable	3,868			3,868	Commissions payable		
Due to reinsurers and ceding companies	41,484			41,484	Due to reinsurers and ceding companies		
Other payables	30,356		92	30,448	Other payables		
Payables	<u>76,431</u>			<u>76,523</u>	Payables		
Preferred stock liability	34,424			34,424	Preferred stock liability		
Financial Liabilities	<u>34,424</u>			<u>34,424</u>	Financial Liabilities		
Unearned premiums reserve	347,689			347,689	Unearned premiums reserve		
Claim reserve	199,912			199,912	Claim reserve		
Special reserve	153,378			153,378	Special reserve		
Premiums deficiency reserve	2,656			2,656	Premiums deficiency reserve		
Reserve for operating and liability	<u>703,635</u>			<u>703,635</u>	Operating and liability reserves		
-	<u>-</u>		8,536	<u>8,536</u>	Provision	1	
-	<u>-</u>		630	<u>630</u>	Deferred income tax liabilities	2	
Guarantee deposits received	1			1	Guarantee deposits received		
Accrued pension liabilities	4,986	3,550	(8,536)	-	-	1	
Deferred income tax liabilities	-	630	(630)	-	-	2	
Other liabilities- others	15,173			15,173	Other liabilities- others		
Other liabilities	<u>20,160</u>			<u>15,174</u>	Other liabilities		
Total liabilities	<u><u>\$834,650</u></u>			<u><u>\$838,922</u></u>	Total liabilities		
Capital stock					Capital stock		
Common stock	86,849			86,849	Common stock		
Capital surplus					Capital surplus		
Capital surplus- others	66			66	Capital surplus- others		
Retained earnings					Retained earnings		
Legal reserve	32,867			32,867	Legal reserve		
Special capital reserve	31,804			31,804	Special capital reserve		
Unappropriated retained earnings	9,747	(7,084)		2,663	Undistributed earnings	1	

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Notes to consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

R.O.C. GAAP (US\$)		Impact of transitioning to TIFRS (US\$)		TIFRS (US\$)		
Items	Amounts	Remeasurements	Presentation	Amounts	Items	Notes
Equity adjustment					Other equity	
					Exchange differences	
					resulting from translating	
Cumulative translation					the financial statements of a	
adjustments	(1,808)			(1,808)	foreign operation	
					Unrealized gains (losses)	
Unrealized gains or losses on					from available-for-sale	
financial instruments	2,462			2,462	financial assets	
Unrealized gains or losses on					Gains (losses) on cash flow	
financial instruments	589			589	hedges	
Net loss not recognized as net						
pension cost	(4,773)	4,773		-		1
Minority interest	10,337			10,337	Non-controlling interests	
Total stockholders' equity	168,140			165,829	Total equity	
Total liabilities and stockholders'						
equity	<u>\$1,002,790</u>			<u>\$1,004,751</u>	Total liabilities and equity	

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Notes to consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

(3) Reconciliation of comprehensive income statement items for the year ended 31 December 2012.

R.O.C. GAAP (NT\$)		Impact of transitioning to		TIFRS (NT\$)		Notes
Items	Amounts	Remeasurements	Presentation	Amounts	Items	
Operating revenues					Operating revenues	
Direct premium income	\$16,545,315			\$16,545,315	Direct premium income	
Reinsurance premium income	494,931			494,931	Reinsurance premium income	
Premiums income	17,040,246			17,040,246	Premiums income	
Deduct: Reinsurance premiums ceded	(4,426,479)			(4,426,479)	Deduct: Reinsurance premiums ceded	
Change in unearned premiums reserve - Net	(890,021)			(890,021)	Change in unearned premiums reserve - Net	
Retained earned premium	11,723,746			11,723,746	Retained earned premium	
Reinsurance commission earned	463,969			463,969	Reinsurance commission earned	
Handling fee earned	33,345			33,345	Handling fee earned	
Investment profit and loss	595,257			595,257	Investment profit and loss	
Interest income	413,175		(26,281)	386,894	Interest income	
Gains on valuation of financial assets	105,865		(105,865)	-	Gains from Financial asset or financial liability at fair value through profit or loss	5
-			122,834	122,834	Realized gains from available-for-sale financial assets	5
-			217,187	217,187	Realized gains from held-to-maturity financial assets	5
-			(805)	(805)	Share of loss of associates and joint ventures accounted for using the equity method	5
-			(1,879)	(1,879)		
Losses on investments recognized under the equity method	(1,879)		1,879	-	Losses on foreign Exchange	5
Losses on foreign Exchange	(128,974)			(128,974)		
Gains on disposal of investments	207,070		(207,070)	-		5
Other operating revenues	73			73	Other operating revenues	
Total	12,816,390			12,816,390	Total	
Operating costs					Operating costs	
Insurance claims paid	(8,595,725)			(8,595,725)	Insurance claims paid	
Deduct: Claims recovered from reinsurers	1,926,425			1,926,425	Deduct: Claims recovered from reinsurers	
Retained claim paid	(6,669,300)			(6,669,300)	Retained claim paid	

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Notes to consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

R.O.C. GAAP (NT\$)		Impact of transitioning to TIFRS (NT\$)		TIFRS (NT\$)		Notes
Items	Amounts	Remeasurements	Presentation	Amounts	Items	
					Changes in insurance liabilities-Net	
Changes in liability reserves	(369,079)			(369,079)		
Change in claims reserve - Net	(610,892)			(610,892)		-
Change in special reserve - Net	305,464			305,464		-
Change in premiums deficiency reserve - Net	(63,651)			(63,651)		-
Commissions expenses	(722,989)			(722,989)	Commissions expenses	
Other operating costs	(51,324)			(51,324)	Other operating costs	
Total	<u>(7,812,692)</u>			<u>(7,812,692)</u>	Total	
Operating expenses	<u>(4,432,882)</u>	5,524		<u>(4,427,358)</u>	Operating expenses	
Operating income	<u>570,816</u>			<u>576,340</u>	Operating income	
-	-		(9,219)	(9,219)	Non-operating income and expenses	5
Non-operating revenues and gains	<u>18,829</u>		(18,829)	<u>-</u>		- 5
Non-operating expenses and losses	<u>(28,048)</u>		28,048	<u>-</u>		- 5
Consolidated income before income taxes	561,597			567,121	Profit before tax from continuing operations	
Income taxes expense	<u>(195,458)</u>	(939)		<u>(196,397)</u>	Income tax expense	
 					Profit from continuing operations	
Consolidated net income	<u><u>\$366,139</u></u>			<u>370,724</u>	operations	
				370,724	Net income	
					Other comprehensive income	
					Exchange differences resulting from translating the financial statements of a foreign operation	
				(47,245)	Unrealized gains from available-for-sale financial assets	
				166,779	Losses on cash flow hedges	
				(11,387)	Share of other comprehensive income of associates and joint ventures accounted for using the equity method	
				<u>(6)</u>	Other comprehensive income, net of tax	
				<u>108,141</u>	Total comprehensive income	
				<u><u>\$478,865</u></u>		

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Notes to consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

R.O.C. GAAP (US\$)		Impact of transitioning to TIFRS (US\$)		TIFRS (US\$)		
Items	Amounts	Remeasurements	Presentation	Amounts	Items	Notes
Operating revenues					Operating revenues	
Direct premium income	\$569,546			\$569,546	Direct premium income	
Reinsurance premium income	17,037			17,037	Reinsurance premium income	
Premiums income	586,583			586,583	Premiums income	
Deduct: Reinsurance premiums ceded	(152,374)			(152,374)	Deduct: Reinsurance premiums ceded	
Change in unearned premiums reserve - Net	(30,638)			(30,638)	Change in unearned premiums reserve - Net	
Retained earned premium	403,571			403,571	Retained earned premium	
Reinsurance commission earned	15,971			15,971	Reinsurance commission earned	
Handling fee earned	1,148			1,148	Handling fee earned	
Investment profit and loss	20,491			20,491	Investment profit and loss	
Interest income	14,223		(905)	13,318	Interest income	
Gains on valuation of financial assets	3,644		(3,644)	-	Gains from Financial asset or financial liability at fair value through profit or loss	- 5
-			4,229	4,229	Realized gains from available-for-sale financial assets	5
-			7,476	7,476	Realized gains from held-to-maturity financial assets	5
-			(28)	(28)	Share of loss of associates and joint ventures accounted for using the equity method	5
-			(65)	(65)		5
Losses on investments recognized under the equity method	(65)		65	-		- 5
Losses on foreign Exchange	(4,439)			(4,439)	Losses on foreign Exchange	
Gains on disposal of investments	7,128		(7,128)	-		- 5
Other operating revenues	3			3	Other operating revenues	
Total	441,184			441,184	Total	
Operating costs					Operating costs	
Insurance claims paid	(295,894)			(295,894)	Insurance claims paid	
Deduct: Claims recovered from reinsurers	66,314			66,314	Deduct: Claims recovered from reinsurers	
Retained claim paid	(229,580)			(229,580)	Retained claim paid	

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Notes to consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

R.O.C. GAAP (US\$)		Impact of transitioning to		TIFRS (US\$)		Notes
Items	Amounts	Remeasurements	Presentation	Amounts	Items	
					Changes in insurance liabilities-Net	
Changes in liability reserves	(12,705)			(12,705)		
Change in claims reserve - Net	(21,029)			(21,029)		-
Change in special reserve - Net	10,515			10,515		-
Change in premiums deficiency reserve - Net	(2,191)			(2,191)		-
Commissions expenses	(24,888)			(24,888)	Commissions expenses	
Other operating costs	(1,767)			(1,767)	Other operating costs	
Total	<u>(268,940)</u>			<u>(268,940)</u>	Total	
Operating expenses	<u>(152,595)</u>	190		<u>(152,405)</u>	Operating expenses	
Operating income	<u>19,649</u>			<u>19,839</u>	Operating income	
-	-		(317)	(317)	Non-operating income and expenses	5
Non-operating revenues and gains	<u>648</u>		(648)	<u>-</u>		5
Non-operating expenses and losses	<u>(965)</u>		965	<u>-</u>		5
Consolidated income before income taxes	19,332			19,522	Profit before tax from continuing operations	
Income taxes expense	<u>(6,728)</u>	(32)		<u>(6,760)</u>	Income tax expense	
Consolidated net income	<u>\$12,604</u>			<u>12,762</u>	Profit from continuing operations	
				12,762	Net income	
				(1,627)	Other comprehensive income	
				5,741	Exchange differences resulting from translating the financial statements of a foreign operation	
				(392)	Unrealized gains from available-for-sale financial assets	
					Losses on cash flow hedges	
					Share of other comprehensive income of associates and joint ventures accounted for using the equity method	
				<u>-</u>	Other comprehensive income, net of tax	
				<u>3,722</u>	Total comprehensive income	
				<u>\$16,484</u>		

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Notes to consolidated financial statements (continued)

(Expressed in thousands of dollars unless otherwise stated)

Material adjustments to the consolidated statement of cash flows for the year ended 31 December 2012

The transition from R.O.C. GAAP to TIFRS has not had a material impact on the statement of cash flows. The statement of cash flow prepared under R.O.C. GAAP was reported using the indirect method. Furthermore, cash flows from interest and dividends received and interest paid were classified as cash flows from operating activities and interest and dividends received were not disclosed separately. However, in accordance with the requirements under IAS 7 “Statement of Cash Flows”, the interest and dividends received for 31 December 2012, are separately disclosed in the statement of cash flow. For the year ended 31 December 2012, the interest and dividends received were recognized by NT\$344,249 (US\$11,850) thousands and NT\$60,584 (US\$2,086) thousands, respectively.

Apart from the aforementioned differences, there were no material differences between the statements of cash flows prepared under R.O.C. GAAP and TIFRS.

1. Employee benefits

According to requirements of previous GAAP, the Consolidated Company conducted actuarial valuation on defined benefit obligation and recognized pension cost and accrued pension liabilities. After adopting IFRS, the actuarial valuation was performed in accordance with IAS 19 “Employee Benefits”. The Company reperformed actuarial valuation on defined benefit obligation, zeroed accumulated actuarial profit or loss at the date of transition according to the adoption of exemptions stated in IFRS 1 “First-time Adoption of International Financial Reporting Standards” and recognized unrecognized transitional net benefit obligation at one time.

As of 1 January 2012 and 31 December 2012, the IFRSs adjustment resulted in decrease of accrual pension liability by NT\$ 117,219 (US\$3,872) thousands and NT \$142,154 (US\$4,893) thousands, deferred pension cost by NT\$4,061 (US\$134) thousands and NT\$3,481 (US\$120) thousands, net loss not recognized as pension cost by NT\$113,158 (US\$3,738) thousands and NT\$138,673 (US\$4,773) thousands.

After that, in accordance with actuarial pension report to adjust pension, as of 1 January 2012 and 31 December 2012, accrued pension liabilities increase by NT\$253,475 (US\$8,374) thousands and NT\$245,272 (US\$8,443) thousands, deferred income tax assets increase by NT\$43,091 (US\$1,424) thousands and NT\$42,151 (US\$1,451) thousands, retained earnings decrease by NT\$210,384 (US\$6,950) thousands and NT\$205,799 (US\$7,084) thousands.

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2. Deferred Income tax

Classification and valuation of deferred tax

According to IAS 12, an entity can only offset deferred tax assets and deferred tax liabilities under the circumstances that the entity has a legally enforceable right to set off current tax asset against current tax liabilities; deferred tax assets and deferred tax liabilities related to income taxes levied by the same taxation authority on the same taxable entity, which resulted in an increase of both deferred income tax assets and liabilities by NT\$22,311 (US\$737) thousands and NT\$18,305 (US\$630) thousands on 1 January 2012 and 31 December 2012, respectively.

3. According to IAS 7 “Statement of cash flows”, the long-term time deposits should not be classified as cash and cash equivalents but other appropriate subject. As of 1 January 2012 and 31 December 2012, the time deposits amounted to NT\$72,188 (US\$2,385) thousands and NT\$150,811 (US\$5,192) thousands, should be reclassified to investments in debt securities with no active market, respectively.
4. In accordance with the presentation of financial statement of IFRSs, as of 1 January 2012 and 31 December 2012, the adjustment resulted in a decrease of receivables and an increase of reinsurance reserve assets by NT\$766,125 (US\$25,310) thousands and NT\$958,280 (US\$32,988) thousands.
5. The Consolidated Company compiled consolidated statements of comprehensive income under R.O.C. GAAP and the Regulations Governing the Preparation of Financial Reports by Insurance Enterprises before amendments. After transition to IFRS, certain accounts had been reclassified properly in order to meet the presentation of IFRS and amended Regulations Governing the Preparation of Financial Reports by Insurance Enterprises, certain items have been reclassified. The other adjustments related to the transition to IFRS are mentioned above.